Challenge

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CHALLENGE NOTES

Optimism in the Treasury; subsidizing subsidies; filling leisure time; unions as employers; soup and the advertiser; an important fringe benefit.

THE U. S. TREASURY, long considered one of the most conservative of Government Departments, has staked its fiscal health on continued economic expansion in America. In the past, the Treasury has estimated future tax receipts by assuming that economic conditions in the coming fiscal year would be approximately what they were in the preceding fiscal year. In its new estimates for fiscal 1955-56 (which starts July 1), revenue is calculated on the assumption that Personal Income will increase by 4 percent over this year and will continue to rise during the first half of 1956. While these estimates tally with the expectations of most economists, they do assume quite a lot. These projections assume that corporate profits will come to 38.5 billion dollars by the end of the year, 10 percent higher than in 1954. Excise taxes are also expected to yield about 2 percent more revenue. Some economists have criticized this method of projecting future revenue on the ground that economic conditions may change and that it is better for an overburdened government to find itself with an unexpected surplus than with an unexpected deficit. Others contend that such projections are more realistic and enable government to evolve a more flexible tax policy.

"Subsidized Subsidies"

THE East German Communist Government recently announced that subsidies to state-owned industries must stop. Up to now, it seems, more than 27 percent of nationalized industries—and that includes nearly all East German industry—have been losing money. But since a state-owned enterprise cannot very well go into bankruptcy—its various creditors being state enterprises, too—these losing businesses must be

further supported by "subsidized subsidies." In other words, state funds must be used to pay for the losses of a state investment. Now, it is nothing new, even in a free enterprise economy, for government to subsidize some industry which for one reason or another is believed to be essential to the security and prosperity of the nation as a whole—although most economists frown upon the practice except in very special cases. Still, economically wasteful as they usually are, such subsidies are a far cry from the subsidization of already subsidized losing properties. The freedom to go into bankruptcy may appear as a cruel joke to those involved, but the alternatives in terms of economic progress are much worse.

Leisure on the Rise

ONE OF those pedantic, but useful, statistical studies learned societies are always putting out informs us that the "average" person between the ages of eighteen and sixty-eight enjoys ninety-three days of leisure each year —excluding time spent eating, sleeping, traveling to and from work, etc. In an "average" lifetime, that amounts to some eleven years of "spare hours." How to fill this off-the-job time has become a big problem and, paradoxically, many new jobs have been created in the attempt to meet it. Automation will undoubtedly increase the amount of available leisure time. Many experts, indeed, foresee a time in the not-too-distant future when most of us will be spending less than four hours producing more than four times as many goods. In a way, it is a good thing that we are not going to have all this extra leisure thrust upon us in one fell swoop, that we are going to have time to get used to the idea. As our working day gradually shortens and our real purchasing power gains—as it surely will if only we manage to stay out of war—we shall have ample opportunities to develop new interests, new hobbies. Already, we have impressive evidence that Americans are finding new ways to "fill" instead of "kill" time—witness booming sports equipment and hobby sales, the new "do-it-yourself" trend, the success of adult education classes, etc. Far from being the crass materialists our European friends sometimes picture us, we are fast becoming the only society on earth where the meaningful enjoyment of leisure is no longer confined to the privileged few.

Fringe Benefits with Frills

E. CLAIRBORNE ROBINS, a pharmaceutical manufacturer in

Richmond, Va., has some original and, in our opinion, important ideas on industrial relations. "Fun," he says, "is the best fringe benefit of all." Ever since Robins took charge of the family-owned firm twenty-one years ago, he has been surprising his employees with hams, turkeys, bonuses—even occasional trips to Florida. Now, we don't for a moment want to suggest that such surprises are more desirable that the certainties of high wages, paid vacations and sick leaves, pensions, etc. Nor do we think too much of paternalistic employers "keeping their children happy with bright toys." On the other hand, we think Mr. Robins is right when he emphasizes the importance of "fun," for man does not work for bread alone. He labors for the good life, and fun is an important ingredient of that good life. Meaningful work and the wherewithal for the enjoyment of meaningful leisure are his aims.

What's Good for the Goose . . .

A NATIONAL Labor Relations Board examiner, in an unusual ruling, recently held that the AFL Teamsters Union in Oregon, in its capacity as employer of administrative personnel, had been guilty of unfair labor practices. Specifically, the union was found guilty of firing five of its employees because they supported a rival union and of refusing to bargain with the union the employees had chosen to represent them. In handing down his decision, NLRB Examiner Martin S. Bennett saw no reason why a union, when it is also an employer, should not be subject to the same legal restraints as any other employer. The case was an extremely rare one (Mr. Bennett said he had only managed to find one other like it), but it does help to explain why labor unions have by and large kept clear of industrial investments. Such investments, many responsible union officials feel, may force them to pay undue attention to their interests as stockholders, to the detriment of their position at the collective bargaining table. They fear that one day they may also find themselves before an NLRB Examiner, accused of "unfair labor practices," and they do not feel that such a spectacle is good either for labor or for themselves.

Soup for Breakfast?

FOR THE last three months or so soup marketers have been working hard to bring soup to the breakfast table. Now, for all we know, soup may be just the thing to put life into us on a cold gray

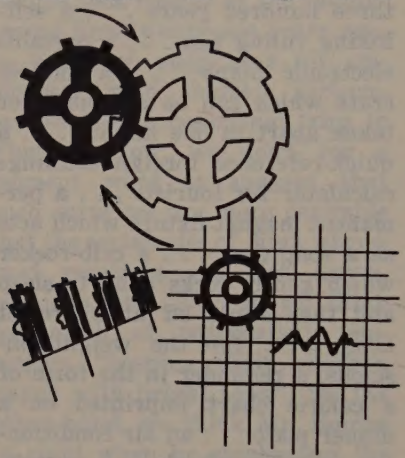
morning; we don't know because we haven't tried it. We do think, however, that the advertisers who thought up this particular promotion campaign should be made fully aware of the difficulties they are up against. Judging from the reactions of some 5,000 top marketing executives queried (the majority said they would not try soup for breakfast under any circumstances), the odds are none too bright. If marketers—men whose job it is to make us change our buying habits—are skeptical, we suspect that the customer will be even more so. True, advertisers and promotion men have been remarkably successful in getting us to change our living habits. Who would have thought fifty years ago that the day would come when we would be drinking juice for breakfast, when men would be going to work in shorts and women would be smoking cigarettes (and pipes)? Certainly, the advertising man has played his part in bringing about these changes. On the other hand, there is a limit to what even *he* can do at a particular time and place. In the final analysis, he can only *suggest*. For, contrary to superstition, it's Main Street and not "Madison Avenue" which determines whether a particular innovation will catch on.

Better Mousetraps

AN "ATOMIC CLOCK," claimed to be accurate to within a fraction of a second for more than three hundred years . . . a self-inking ruling pen . . . a portable electronic piano . . . a nailless crate which can be assembled or taken apart in one minute . . . a quick-reference foreign exchange calculator for tourists . . . a permanent magnet fixture which acts as a soap dish . . . a crib-rocker which gently rocks baby to sleep and then shuts off at a pre-set time . . . for the weight-conscious, a reminder in the form of a calorie chart imprinted on a dinner plate . . . an air conditioning unit on wheels . . . crush-proof shoulder pads . . . a machine that can be adapted both for lawn mowing and floor polishing . . . an automatic zigzag stitcher that can be added to your sewing machine for more fancy stitching . . . a parliamentary slide-rule which "automatically" solves procedural problems for committee chairmen . . . and, finally, Noggo—a new drink that is being promoted by a British dairy. Milk is spiked with whiskey, brandy, rum or gin and hibiscus honey and, according to the dairy, is delicious. Not recommended for weak babies.

AUTOMATION

Are Automatic Factories Possible?



A high degree of automatization is not only possible but necessary

by Hartley E. Howe

A DECADE AGO only a few thousand men really knew enough about automatic controls even to talk about how they worked and what they could do. Today, every apartment building and every town block has an automation "expert." At the slightest encouragement, he will go into raptures about what the world will be like when automation takes over.

There will be completely automatic factories, curiously devoid of workmen, into which raw materials are poured at one end and from which the finished products roll out at the other. Only a few, perhaps four or five, engineers will be moving about inside—keeping an eye on the great bank of machines and acting more like watchmen than machine operators. In other places there will be completely automatic warehouses, which receive orders by electrical impulse from all over the country. All sorts of gadgets, devices and fantastic mechanisms will pick out the various products in the exact size, model and color desired. Everything will be prepacked, automatically addressed and labeled. In another part of the warehouse, automatic devices will be banging out bills, filing copies of invoices and setting down inventory records.

And so it goes—one marvel after another in an age of automation. Wonderful? Yes, and not exactly all a pipe dream.

It is unlikely that we shall want to use automatic devices as extensively as some of the automation enthusiasts now foresee. But the principles on which automatic factories and warehouses

can be designed are becoming clearer every day. In fact, manufacturing plants in existence today give us a startling picture of how much is already possible.

In some modern oil refineries, only a few engineers control immense plants through a long panel of instruments in a single room. Workers in a steel shell-casing plant at Rockford, Ill., adjust machines but do not touch a single operation from the moment units are cut into steel billets until the time they leave the plant as finished casings. At the Massachusetts Institute of Technology there is a machine that takes a blank sheet of metal and artfully forms it into any shape desired, following directions that have been previously punched on tape. An automobile engine plant uses three machines and nine workers to drill crankshaft holes that formerly needed twenty-nine machines and thirty-nine men. These are just a few of the high spots. All over the country, hundreds of new machines are performing thousands of industrial and clerical tasks.

Automation has been developing quietly for some time now. During the past few months, automation has made headlines because it is expected that forthcoming negotiations between labor and management in mass-production industries will give it due consideration. There have been various claims, on the one hand, that automation will result in mass unemployment and wholesale loss of incomes; and on the other hand, that it will make a happier America, with a shorter work week, higher pay and lower prices.

Automation is a made-up word —a shortened form of *automatization*, which many experts still prefer. It is a term applied to a device, a machine or an automatic process which does not require a human operator. The Industrial Revolution, which started nearly 200 years ago, saw the substitution of power-driven machinery for the muscles of human beings and animals. A second industrial revolution, it is said, will substitute automatically controlled machinery for the brains and sensory organs of men. But whether automation means the beginning of a Second Industrial Revolution, or whether it is merely an extension of the first, makes little difference. Either way you look at it, automatic control devices and automatic machinery are going to take over many tasks which human beings are now performing. But so have the steam shovel and conveyor belt taken over tasks human beings once did.

Hartley E. Howe specializes in writing about technological developments in industry. This article is based on extensive research in the field of automation.

Automatic controls can do many things. They can be applied to a simple device that is part of a big machine. Or, a number of individual controls can be combined to make an automatic machine. Or, a row of automatic machines can be connected by a master control, which also moves the work from one station to another—to make a completely automatic process.

WE CAN go even further. A number of automatic processes can be linked together with a common control center to make an automatic factory. Or, an automatic factory can be linked through a common control center to other automatic machines, which record orders and keep the books, ship the production, keep track of inventory, order raw materials and send the bills—to make an automatic business.

To date, we haven't got beyond the automatic process stage. But the automatic factory appears possible, and even the automatic business.

The basic principle in any kind of automation, whether it be for a simple device or for a whole production line, is called *feedback*. Essentially, the feedback principle involves an automatic control which can adjust the operation of a machine according to information it receives about how the work in process is going. A simple illustration of such a control device is the thermostat. Information about the temperature of a room is registered on a thermometer; but it is a thermostat which relays this information back to the oil burner. If a thermostat were not a part of the heating system, a human being would have to turn the fuel supply on and off. Thus, an automatic control using feedback can be anything from a simple device like a thermostat to an elaborate system of electrical circuits making use of a room-size computer that does a lifetime work of a thousand mathematicians in a few seconds.

Automatic controls can do more than "feed back" information and keep machinery running properly. They can change the operations according to a predetermined order of instructions. This is called *programming*. Over 150 years ago the Jacquart loom was programmed so that it could weave an elaborate pattern automatically. This was done by punching holes in cards so that a different set of threads was lifted each time the shuttle was shot across. By varying the holes, any pattern desired could be woven without an operator. Punch cards have since been used in all sorts of automatic devices—from player pianos to teletype. Punch tape,

which works on the same principle, is used to instruct or program giant computers and other control devices.

Actually, then, the basic elements of automation have been around for a long time. In fact, the automatic factory itself is not new. A flour mill near Philadelphia worked automatically way back in 1784, taking in grain at one end and turning out flour at the other without human intervention.

But the big developments in automation have come since World War II. The new circuits, sensing devices, transistors and other electronic components, developed regardless of cost during the war, have provided the automation engineer with tools such as he never had before. This has coincided with economic conditions which encouraged investment in automatic controls. A number of industries, for which automation was particularly adaptable—such as chemicals and plastics—have been developing new products with a large demand but a limited supply. A shortage of skilled manpower in these industries provided every encouragement to substitute automatic controls and machinery.

Automation has many advantages over conventionally controlled and operated machinery—all of them having to do with greater production, greater versatility and lower costs. Automatically controlled machinery or processes can turn out higher quality products because electronic devices can be made that are more sensitive and quicker in response than the most skilled operator. Automation makes possible the production of a wholly new range of products, many of which human beings could not work with, such as the radioactive products of atomic fission. Automatic machines can be run faster since they do not depend on human reflexes for control.

THERE are other savings, too. Less inventory is tied up because the material moves through the plant more quickly. There is a sharp reduction in rejects. For example, hand controlled riveting of aircraft panels formerly resulted in spoilage of a considerable number of units. The addition of a $250 automatic machine control produced a 35 percent savings in parts by eliminating human errors.

Finally, we come to the controversial savings effected by substituting automatic devices for the human operator. An automatic machine for making aluminum cups, plus one part-time operator, now does as well as fifty-five men formerly did. Nine men at a bank of automatic ma-

chines can turn out as many rifle grenades as twenty-seven men operating conventional machinery. At a new automobile engine plant there are 125 operations, of which 124 are performed by automatized transfer machines—machines that move the parts from place to place as well as process them. These 124 operations require just ten men.

But dramatic as these figures seem, they do not tell the whole story. Automatic controls can be temperamental workers. They require attention, and lots of it. That means maintenance men and repairmen to rush machinery back into action when it breaks down.

It is significant that despite a very substantial introduction of automatic machinery to our industrial and business establishments, men have not been thrown out of work because of displacement by automatic controls. In effect, automatic controls have been introduced *to augment* the productive capacity of the existing work force. The difference between a static economy and a dynamic one is, among other things, an ever-increasing application of technological advances.

Certainly, an increasing automatization of our factories and businesses will result in many benefits which greatly outweigh short-term problems. Some upgrading or transferring of skills will be necessary. Problems of adjustment will be greater for some industries and less for others. But the coming of automation is in line with the great changes now taking place in American life. We need greater and more efficient production to provide the goods for an ever-increasing population. We need efficient production to keep unit costs low and wages high. We want more leisure time to do all the things that we have found ourselves doing in the form of hobbies, reading, sports, etc.

IT HAS been the economic history of man that for every old job that was eliminated by the creation of a new machine, five new jobs came into being. The tragedy of the disappearing blacksmith was also the miracle of the assembly-line worker. Machines, no matter how good, can replace men neither as creators of machines nor as consumers of the products of machinery. Automatic machinery and automatic controls may be the finest tools built since the first cave man chipped out his flint ax. But they are still only tools.

A new era of freedom from drudgery lies waiting for us. How smoothly the period of transition goes depends upon how intelligently we can bring the new tools into use. ■

AUTOMATION

Where Does the Worker Go?

by Haig Babian

Labor-saving devices always have and always will create more jobs and greater purchasing power

AN EMBITTERED WAG once observed that "the only thing wrong with the world is that people act like human beings." This sounds like a terrible indictment. Yet, all it means is that we can make of the world whatever we wish. A more specific observer of mankind might comment that human beings have an overdeveloped instinct for self-preservation —a trait which often inhibits the exercise of better judgment. This is another way of saying that many of us have the habit of looking first at the dark side of things, even though the brighter side shines brilliantly right under our noses. It would be well to keep both these observations in mind when we ask the question: "What is going to happen to people who work in factories and in offices if they are displaced by automatic machines?"

A question like that rises because the old bogey of technological unemployment has been revived. There are predictions that millions will be unemployed when the mechanical monsters take over the work of the world. At least one union leader has served notice that he wants a Government-sponsored study of automation. He claims that if it is not handled or managed with the utmost regard for the public interest, it will create havoc in the economy. From the man who pioneered the mathematical basis for automatic controls comes the stern warning that the worker who does not possess special ability will have nothing to offer the labor market in the automatic age of the future.

If, therefore, more than a few people seem to view automation with a jaundiced eye, it is because

instinct tells them there is a threat to security—especially since men who ought to know what they are talking about say that the threat is real.

People who believe automation is a good thing usually cite history to support their optimism. They remind us that talk about technological unemployment started with the introduction of the very first piece of machinery hundreds of years ago. Yet, they point out, the effect of mechanization during the past 250 years has been to expand the economy fantastically and to increase the number of jobs beyond all expectation. There is no arguing with history.

The optimists further point out that although the population of the United States has increased by 20 percent since 1939, the volume of goods and services during this same period has been increased by 100 percent. Such a rapid growth in our material wealth could not have been possible without an ever-increasing degree of mechanization to step up our productive capacity. And what, after all, is an automatically controlled machine, if not another step in the process of greater mechanization?

The retort of the pessimists is that citing the history of mechanization is all right, but only up to the point where automation comes in. Automatic controls, they say, are as total a weapon against employment as the hydrogen bomb is against an enemy. The human being does not stand a chance.

The kindest thing that can be said about this view of automation is that it just isn't true. I wish we could be as sure about the hydrogen bomb.

THE pessimists are laboring under several misconceptions. If they do not accept the history of mechanization as valid in this instance, perhaps the history of automation will be more convincing. International Business Machines Corp. has been at the forefront of developing giant computers and other automatic control devices. Because IBM practices what it preaches, its clerical operations are as automatic as they possibly can be in this day and age. During the past ten years, the employees of IBM have doubled their productivity with the use of automatic machinery. Yet, the actual number of employees has increased in the same decade.

We can cite other examples. What can be more automatic than the automatic dialing system for telephones? If it were not for the automatic dialing system, Bell Telephone never would have been able to provide sufficient phone service at a price so many people would be willing to pay. In 1925 there was one employee to every

forty phones. Today there is one employee for every seventy phones. But the phone business has expanded so much that in the ten years since World War II employment has jumped from 400,000 to 600,000 workers.

Automatically controlled and operated machinery is not new to the automobile industry, either. The greater efficiency of these automatic devices has made it possible to manufacture automobiles at a price which encourages an ever-expanding market. This in turn has resulted in such an expansion of the automobile companies that they have more than doubled the number of their employees since 1939.

There are several things that must be considered in this phenomenon of more automation, more employment. In the first place, we should ask ourselves: "Why do 'they' want automatic machinery in industry?" The answer is that there is a need for it in American industry.

As markets expand and there is a rising demand for more and more products, the manufacturer who can increase the productivity of his workers can outproduce and outsell his competitors. When you read that a battery of automatic machines, with merely five attendants, produces as much as 100 men can with conventional machinery, this does not mean that five men have taken over where 100 men once were employed. It means that five additional men have been hired to help the 100 men increase production —to bring it up to levels which can meet the market demands.

Now, you might say that if it were not for automatic machinery, instead of hiring five men the company might have hired 100 men. This is true. But suppose we had ceased to develop new machinery back in 1934, just so that we could hire more men whenever we wanted to increase production. In order to produce as many electric light bulbs as one plant turns out today with 230 employees, we would have to hire 4,000 men instead. Well, what's wrong with that? Nothing is wrong with it, except that if we extend this same principle to include the automobile industry, the electronics industry and all the other manufacturing and business establishments in the country, there just wouldn't be enough workers to go around. We would have to start giving up things. Maybe it would be electric light bulbs, or perhaps automobiles and television sets. Fortunately, the net result of introducing more machinery has been the creation of a wider market and the expansion of job opportunities.

Another notion which contrib-

utes to the fears about automation is that we expect too much from it. We expect that it will eventually take over *all* work. It is true, of course, that before long we shall be able to develop a machine to perform any task which you choose to name. But there is a significant gap between that which is *possible* and that which will be *desired*. There is a point of diminishing returns in the use of automatic machinery—a point beyond which its use would not represent any savings. Even today, for example, we have many types of vending machines which render an efficient and profitable service. Yet, we have found it unnecessary to set up automatic vending machines to sell newspapers on the street corner. There just wouldn't be any point to it.

Another factor which should be considered is very obvious—and therefore very often overlooked. When pessimists talk about the extension of automation to a point where it will threaten wholesale unemployment, they do not specify exactly when the danger point will be reached. They merely say "the day is coming." But when they use the phrase "the day is coming," they are admitting that the process will be gradual.

Indeed, it will be gradual, because there is still much work to be done in the field. Moreover, automatic control devices are expensive things. It is estimated that an investment of $100,000 per worker in automatic machinery will be required to bring a measure of automatization into our production industries. This would mean a total outlay of about $1,400,000,000,000—that's trillions, not billions. Compare this with the $5,715 invested in machinery per production worker in 1945, and the $10,829 in 1951.

Such fantastically large capital outlays cannot be made overnight. Moreover, even if they are made gradually, money like that cannot be just picked off trees. It must result from an expansion in the economy. But if an economy is expanding, is it possible to have millions of technologically unemployed people roaming the streets without any source of income? Do the pessimists suggest that automation can be paid for in the next generations, even though there is a steady increase in the number of unemployed? Maybe so, but I doubt it.

The increase in automation will maintain a cause-and-effect relationship with the expansion in the economy. It will not, like some ugly mutation, grow out of all proportion to the economic body.

SUCH gradual developments have a way of providing their own adjustments. We have already shown that expansion creates more jobs.

I will even hazard the observation that the required expansion will create more jobs at the same level of skills which each worker has already attained. It has been said that automation will require a steep upgrading of skills on the part of workers who must be pulled away from relatively simple machinery and put to the tasks of maintaining and watching the complicated electronically controlled mechanisms. Actually, the "steep" upgrading that has been talked about so much will become obvious only *after many years* of not-so-steep changes. The transition in skills will not be as great a problem for the average worker as is sometimes imagined.

SO WHERE will the automatic age lead us? Well, it is certain that it will not lead us to a world without problems—but among these problems will not be mass, technological unemployment. That it will be a world in which more people have more things there is no doubt. The minimal material standards of the world of tomorrow would be considered quite luxurious by today's concepts. Automation represents another step in the constant effort to fill the gap between needs (demands) and goods (supply). It is significant that organized labor already realizes the direct relationship between rising productivity and higher wages. There are some wage contracts where productivity increases are automatically passed on in the form of wage increases. Once labor grasps the significance of automation in terms of greater productivity, it should find its way clear to a further examination of the real implications of the now-dreaded automatic machine.

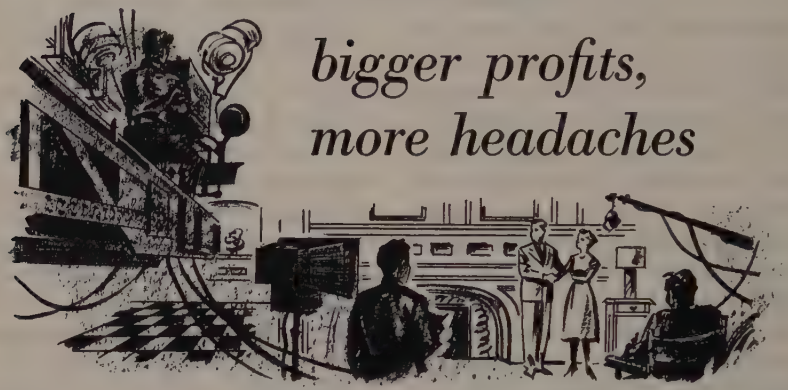
Certainly one of the fringe benefits may be a further decrease in the work week—perhaps down to thirty hours. But to make this possible, without hurting living standards, we shall need more automation in the future—not less. If a 30-hour week is not possible now, it will be tomorrow.

We know too much about the relationship between capital investment, disposable personal income and a balanced economy to find ourselves in a situation of extreme overproduction and extreme underconsumption. Any fear that automatic devices can render human beings useless, produce fantastic quantities of goods at a time when the purchasing power is extremely weak—all this is a bad dream. ■

YEARLY POSTAL EXPENDITURES of businesses range from $10 to $1,000,000. Among firms employing at least 100 people and reporting $1,000,000 in total receipts, publishers had the largest expenditures, more than $300,000 per year.

by Hy Hollinger

HOLLYWOOD: *bigger profits, more headaches*



The flourishing filmland casts an unscheduled battle royal

PEOPLE ARE going to the movies again, so Hollywood will not have to give up its swimming pools after all. The remarkable recovery of the motion picture industry may be traced to a series of favorable circumstances. For one thing, the producers evidently fell under the spell of their own public relations line—"movies are better than ever." Indeed, a series of remarkably fine movies was produced and released during 1954. The new projection techniques—Cinerama, CinemaScope, VistaVision, stereophonic sound and just the plain, wide screen—aroused public curiosity. The influence of television waned, especially in areas where it had lost its novelty appeal. The reduction of the Federal admissions tax, from 20 to 10 percent, added new revenue to the "take" of the nation's theaters, which chose to pocket the difference.

With such nice things happening to the motion picture world, the downward trend that started in 1946 was emphatically reversed during 1954. According to an independent research organization retained by the Council of Motion Picture Organizations, average weekly domestic admissions, which reached a high of 82,400,000 in 1946 and a low of 45,900,000 in 1953, were again on the climb. They were up to 80,100,000 in August, now considered to be the peak movie month. The stock valuation of the ten publicly owned major film and theater companies also showed a big rise in 1954.

Hollywood's comeback has been so good that people are wondering if it had ever gone away. But to the men of the motion picture industry the problem of bringing movies out of the woods is more than one of merely finding one's bearings. Attention must now be turned to sustaining the renewed interest in motion pictures. How can this be done? More innovations and more projection techniques? Can Hollywood continue to make better pictures?

These are the artistic and technical problems which challenge the film industry in 1955. There is no reason to believe that such challenges cannot continue to be met as well as they have in the recent past. The more troublesome side of the motion picture world is to be found in the relationship between the men whose business it is to produce and distribute films and those who exhibit them.

WHATEVER 1955 may bring in the way of maintaining the recovery of the film industry, the year promises to be a pivotal one in the bitter feud between producer-distributors and motion picture exhibitors. The industry is a house divided against itself. Not since the days when theater men instigated anti-trust suits, which eventually caused major film companies to dispose of their theater holdings, has there been so much rancor.

The producer-distributors are accused of creating a seller's market by cutting down on annual picture output. They are charged with pursuing a policy of "bigger profits from fewer pictures shown in fewer theaters on longer runs at higher prices."

THIS policy is seen as endangering the existence of neighborhood and small-town theaters. The smaller houses need a fast turnover of new pictures to bring repeat business. But even the larger theaters or circuits feel that they need more pictures to maintain customer interest. The big complaint is that producer-distributors are charging too much for their product.

The major motion picture companies, such as Metro Goldwyn Mayer, 20th Century Fox, Paramount and Warner Bros. do not deny that they are making fewer pictures. Whereas in previous years each one of these major producing units made at least fifty pictures, they are now individually turning out only between twenty and twenty-five.

The cutdown is attributed to basic economic factors. It is said that the public will no longer pay for the small or "B" pictures.

Hy Hollinger covers the motion picture field for Variety, the magazine of the entertainment world.

Pictures of this type can be had with the mere flick of a switch on the television set. To meet the competition of television, the motion picture people say something better must be offered. Therefore, they are eliminating the "B" films completely. Concentration is on big pictures, based on presold stories, peopled with name stars, and filmed, if necessary, at exotic or foreign locations. These pictures are expensive, representing investments of anywhere from two to eight million dollars apiece. Therefore, the big producers say, you cannot make too many of such pictures, and you must charge equitable prices.

THE POSITION of the producer-distributors was stated simply by Darryl F. Zanuck, 20th Century Fox production chief. "I don't believe," he said, "that we serve either the exhibitors or the public by making pictures by number." Samuel Goldwyn has echoed this statement, declaring that the only way to recapture the public is by giving it "quality instead of quantity."

And since multi-million-dollar pictures have become the rule rather than the exception, higher film rentals must be demanded. But the exhibitors claim they cannot afford to pay these "exhorbitant" prices. Although, according to Government restrictions, a distributor cannot tell the theater operator what admission price to charge, to meet the high rental demands the exhibitor must, nevertheless, raise his box office prices. This, the exhibitor claims, antagonizes his regular customers. He further charges that he cannot emerge with a profit because the distributor continues to squeeze his profit possibilities by higher and higher percentage demands.

Some distribution sales executives, while loath to admit it openly, have stated privately that industry practices today *do* work against the small, independent exhibitor. But they point out that there is little room for flops nowadays. Realizing the nature of the risk, distributors must concentrate their selling efforts on the key, big city theaters and the circuits which deliver top money.

TO MANY in the film industry, the current product shortage appears to have its roots in the Government's divorcement proceedings—proceedings which forced several producer-distributors to dispose of their theater holdings. With this divorcement, the argument goes, the producer-distributors are no longer under obligation to produce a supply of pictures for their former theater affiliates.

The elimination of block-book-

ing, also under the Government's prodding, is cited as another reason for the present-day situation. The block-booking method allowed film companies to sell a whole season's production, sight unseen. But under present regulations, each picture must be sold separately, and in areas where there is substantial competition each picture must be put up for competitive bidding. Block-booking, even at its worst, insured theater owners of a product inventory.

Notwithstanding the "whys" and "wherefores" of the present product shortage, either deliberate or economic, some exhibitors are seeking additional Government control of the industry. Such cures are advocated by The Allied States Association of Motion Picture Exhibitors, a trade organization of small and independent theater owners. Operating on the theory that "regulation by the Government is superior to regulation by the film companies," Allied has drawn up a bill which will be presented to Congress, if necessary. An actual effort to seek introduction of the measure is being withheld for a period "to see if conditions improve." The bill essentially provides that the distributors file with the Federal Trade Commission certain classifications for both theaters and films, plus fair and reasonable film rentals for each classification. Essentially it is a price-regulation bill, based on the size and location of the theater and the value of the particular picture.

NOT ALL exhibitors agree with Allied's plea to the Government as a "choice of evils." Theater Owners of America, a rival trade group dominated by the larger circuits, strongly opposes "calling in the cops." TOA favors voluntary arbitration and conciliation to settle industry disputes.

Indeed, an arbitration system was almost established two years ago. Allied, however, pulled out when distributors failed to include film rentals as a subject of arbitration. The distributors feel that they, and they alone, should have the right to determine the price of their own pictures. Despite Allied's objection, TOA is continuing efforts to work out the arbitration plan with the distributors.

Any workable arbitration system would be a welcome relief from the litigation that has plagued the motion picture industry since the United States Supreme Court charged the film companies with violation of the anti-trust acts. On various charges of violation of the Clayton and Sherman Anti-Trust Acts, the film companies now have pending more than 400 million dollars in suits instigated by the exhibitors.

Since the major film producing companies are now committed to a policy of fewer and more expensive pictures, the various exhibitors' groups have decided to take concrete steps to alleviate the product "shortage." Both Allied and TOA have placed the full force of their organizations behind the encouragement of independent producers and distributors. By getting additional products to the market, they hope to restore a competitive situation and thus break the "stranglehold" of major producer-distributors.

ENCOURAGEMENT by the leading exhibitor groups has led to a resurgence of independent film production and the formation of a whole new series of production companies.

Money, heretofore scarce for independent production, is springing from many sources. For example, TOA has formed the Exhibitors Film Financial Group, Inc., which, through a stock issue, hopes to raise ten million dollars "to cause" independent films to be made. Exhibitors, unencumbered by Government rulings, are organizing their own production-distribution companies. Most notable in this category is Distributors Corporation of America. Other theater affiliates are seeking Department of Justice approval to finance production of pictures.

Allied, once the archenemy of block-booking, is now supporting a similar procedure—the so-called "exhibitor guarantee plan" proposed by Hollywood producer Hal R. Makelim. Before beginning production on any film, Makelim is obtaining signed contracts which bind the exhibitor to accept twelve pictures, sight unseen, at the rate of one a month. In effect, what is happening is that the exhibitors are reviving practices—by financing film production and accepting "guarantees" of film deliveries, sight unseen—which establish relationships already deemed culpable in the courts. It is entirely possible that the producer-distributors will press legal action against these steps, particularly since the shoe is on the other foot.

Thus, the intra-industry conflicts of the motion picture world continue apace. The money has begun to roll in again, but it is by no means certain that the encouraging signs of recovery can be sustained in an atmosphere of constant charges and countercharges and costly litigations. The artists and technicians of the motion picture world have their work cut out for them. But the artful businessmen, who measure success by the extent of their profits, are not quite ready to say that all's well with their world. ■

To fulfill the desire to do a job well is "to increase the number of prizes"

The Morality of Competing

by David McCord Wright

IF IT WERE possible for nations to reorganize themselves politically overnight, be it on socialist, capitalist or on communist lines, the next day's basic economic problem would still be—no matter what system had been chosen—how to get more flexibility, energy and development. And after a great deal of thought I have decided, however farfetched the idea might seem to some, that many of the attitudes which hamper us in the West arise from the mistaken notion that the desire to do an outstanding job is in itself somehow un-Christian, immoral and personally destructive.

Notice that my title is not the morality of *competition*, but the morality of *competing*. The trouble with the word "competition" is that it tends too much to suggest a particular economic system—capitalism—whereas most of the difficulties we shall be discussing are universal and not tied to any particular system.

"Competing," in the last analysis, means trying to excel. But excel at what? One can try, it is true, to excel at greed or torture. But one can also try to excel at unselfishness or service.

I have often heard it argued that men should not compete because the fellow who is outdone may have his "feelings hurt." But the trouble with this idea is that if we really mean it, then we should try to do no better than average in every task. And, if we really want to be "moral" and avoid hurting anyone's feelings, we should try to do even worse than average.

Many of the moral confusions regarding capitalism are rooted in a basic error of simple fact: the assumption that total output is necessarily fixed—that the amount of available wealth is somehow "frozen." It follows, from such an assumption of a fixed total, that an increase in my (absolute) share must mean a decrease in somebody else's share. Thus, if I want to have more, I must also desire other people to have less. The assumption of a fixed total immediately gives great plausibil-

David McCord Wright is Professor of Economics at the University of Virginia and author of several books on economic topics. He was recently on a lecture tour of Great Britain.

ity to some of Marx's teachings about the "class struggle" and the line about the "wolf law of capitalism." But is the basic assumption true?

Fortunately, we can show that it is *not* true. The essential weakness of the Marxian system of thought is that it fails adequately to recognize the productive power of a new idea—a new product, process or invention. For a new idea, which combines labor and resources into a new pattern, may add so much to total output that both the absolute rewards of labor and the absolute return to capital will go up together. And the statistics are clear that this is, in fact, just what has happened. As Peter Drucker remarks, the distinguishing characteristic of modern competitive industrialism has been its ability to expand "at nobody's expense."

The immediate and absolutely vital fact is that if total output is expanding, my wanting more no longer inevitably means that I must want you to have less. Nor does a rise in profits mean a fall in wages, or vice versa.

CLEAR thinking, I suggest, requires us to distinguish between what I will call "covetousness" or "envy," on the one hand, and "emulation" upon the other. Covetousness and envy, as I see them, mean trying to pull the other fellow down, trying to get what he has. Old and New Testaments alike are filled with condemnations of these attitudes. Emulation, however, is quite a different thing. Whereas envy leads to hatred and slander, emulation may be associated with admiration and cooperation on many basic matters.

Now, it is emulation which lay at the back of the dynamic Christian competition of many countries under capitalism. It is the distinction between covetousness and emulation which enables many American businessmen still to go to church. For, in willing more for themselves, they do not feel they are willing less for others. And if total output per head is growing, this attitude is in the main correct.

There are, however, some difficult problems we must consider. For even if total output per head is expanding, there still may be unpleasant features. The trouble is that this growth in output does not necessarily benefit everybody by the same amount—and it may actually harm some people. Let us see how this can happen.

With wants constantly changing and production methods constantly changing—as must occur if there is to be growth—the process of total expansion *must* involve a constant reorganization and redirection of industry which affects the lives of many people.

There are some who argue that while admittedly this shifting around and retraining is bound to have some disruptive effects, no one would be bothered too much if incomes were "guaranteed" and everyone got the same income. Since no one would suffer a loss of income because of change, and since everyone would benefit equally from the increase the change made possible, then everyone would be only too glad to make way for change.

Plausible as this explanation sounds, however, it is mistaken. Even under a socialist state where income was equal and guaranteed, many men would come to have a special fondness for certain jobs, certain towns, certain scenery, certain teams of workmates and certain friends. They would resent a disturbance of all these habits and ways of living—even if their money income were unchanged.

This brings out the profound moral issue that underlies the whole problem of economic growth in any society. Shall a man stand pat and insist upon the things that benefit *him*—even if it means thwarting the development of society as a whole?

One special example deserves to be mentioned. If all groups in a society are working hard, but one group holds back and refuses to work hard, thus making its product artificially scarce, that particular group may be able successfully to hold up the rest of society and benefit more thereby than if it had worked hard. But as more and more groups do the same thing, the amount available for plunder becomes less and less. Competition has shifted from competition in giving service, to competition in the technique of extortion. And society is torn to pieces while each group struggles for advantage.

Now for reasons just given, we cannot absolutely guarantee that if all groups returned to "competition-in-furnishing-the-best-service" and stopped "competition-in-extortion," they would absolutely all be better off. But the evidence is overwhelming that for the vast majority of the nation everybody would be better off. The amount of extra income that would be available if everyone competed in giving service would make the amount available by out-extorting the other fellow look trivial.

Self-love and social growth, then, can only be harmonized *on balance*. But on balance they are harmonized in a growing, competitive society. So the scientific economist and philosopher of ethics must set the problem within the framework of two lines of thought. (1) If I consider social growth a good thing, my working

to increase my own private fortune, or my working to do an outstanding job will probably, on balance, contribute to that growth. But inevitably, under socialism or capitalism, some people will be inconvenienced and upset by the process which benefits society as a whole. Nor can it always be guaranteed that the process will benefit me. (2) If, on the other hand, I give so tight and literal a meaning to "security," and believe in it so strongly that neither I nor anyone else is ever to be disturbed or disappointed, then there can be no growth under any economic system.

But do we want growth? A great deal is being done today to discredit the idea of growth by assuming it refers only to an increase in pulp magazines, night clubs and "immaterial" material things. This is all wrong. The idea of growth is in itself quite neutral. Even if you do not want fur coats, you still may want a better education for your child; or more cleanliness; or better houses; or more hospitals and symphony orchestras.

I READ a lot today about the "privileged position" accorded to those who attend certain schools and universities, who work for old firms, etc., a good deal of which is true. And then I see some people wanting to abolish those schools and universities. Now that, it seems to me, is just where the denial of growth leads to the covetous and (to me) immoral and destructive reaction. The proper response to "privileged access" it seems to me is to create so many new and good schools, universities and business organizations that the old "in" positions cease to be major problems. The generous selfishness of emulation saves us from the destructive pitfall of jealous envy! Growth, thus, at one and the same time frees the creative spirit and reduces social tensions.

Nor need there be any connection between the idea of competitive growth and the idea of depression, unemployment and capital "glut." There is (a) no necessary limit to growth; and (b) plenty of knowledge adequate to avoid the problem of a major depression. Also, I honor and respect many of the goals of a program of social welfare. Since we cannot guarantee that everyone will immediately benefit from growth or be free from disturbance, it is important that we use part of our growth increment to offer a fair chance to those who have suffered. But I must stress that without increased production, money appropriations for alleged benefits will not be worth the paper they are printed on. And without a generously competitive

attitude toward work and accumulation, there will not be more production under any system, unless it be an increase in terror and slavery.

Finally, we must examine the validity of the idea that the urge to achieve, to compete or to accumulate is necessarily and always psychologically destructive. Much modern propaganda makes the argument even narrower and says that the urge to achieve, to compete or to accumulate is psychologically destructive *under capitalism,* but not elsewhere.

ALL THIS is far too one-sided. Ambition and emulation, no matter how generous, can, if carried to excess, break *anyone* in *any* system. How tense is the life of the Communist official, how dangerous his ambition and how easily he may be thwarted! Not everyone is fitted to succeed in such a struggle.

If striving for achievement can wreck some people under any system, is nobody to strive or seek? That would be just as nonsensical. The problem of economic growth plus personal psychological health is, therefore, one of balance. And this balance is explicitly propounded in Christian teaching. On the one hand, there is the condemnation of the love of money (I Timothy 6:10) and of jealousy and "selfish" ambition (James 3:14). On the other, there is the parable of the talents (Matthew 25:27) and St. Paul's emphasis upon "striving" and upon the justice of incentives (I Corinthians 9:7). The reconciliation, I submit, is found in Matthew 6:33: "Seek *first* the Kingdom of God and his righteousness, and all these things shall be added unto you."

The Christian is not forbidden to use his talents. He is encouraged to do so. But he is warned against jealousy and envy. Emulation is not un-Christian. We can be called by God to a lay as well as to a spiritual vocation. And provided we remember to see everything *sub specie aeternitas,* there is no sin in going at our vocation with a will!

It is the merciful feature of dynamic industrial competing that under it my winning does mean someone else's losing. The urge of many to win no longer need mean the disappointment of many, but rather *an increase in the number of prizes.* ■

A LOS ANGELES MOTORIST chose to spend a day in jail rather than pay a fifty-cent fine for a parking meter violation. But his case, including the day in jail, cost County taxpayers fifty dollars.

you may want to know...

THE Government's official explanation of how the changes made in the tax laws will affect your tax return is available in a recently published 190-page booklet. Selling for twenty-five cents, it can be ordered from the Government Printing Office, Washington 25, D. C., or purchased at any branch office of the Department of Commerce. Many public libraries also carry the booklet for reference purposes.

Bring A Witness

YOU CANNOT claim an income tax deduction for a stolen wallet unless you are able to produce "proof," a Tax Court recently ruled . . . Nor are you allowed a deduction for tuition that you pay to send your child to a church-sponsored school . . . And even if your son or daughter earns more than the $600 limitation, you can still claim the $600 exemption, providing you contribute more than half the support, and the dependent is under nineteen years old or is a student.

Are You Covered?

WITH many new types of home insurance coverage now available, the standard fire insurance policy may no longer be sufficient. But "extended coverage" can be had for a small additional premium. It covers, for example, water damage caused by leaky plumbing or heating systems, refrigerators or air conditioning units. The coverage also applies to damage caused by ice or snow or accidental falling of trees.

Help When You Need It

EVERYONE needs special help at some time, and knowing the right place to get it can make all the difference. For instance, if you want suggestions on new hobbies, how to arrange a party, or ways to keep a sick child amused, the National Recreation Association, 315 Fourth Avenue, New York, will help. If motor transportation is required for a disabled person, the local unit of

the American Women's Voluntary Services may supply it. Should you be in need of legal advice and unable to pay the standard fee, contact a local branch of the National Legal Aid Association. The police department can tell you the address.

Stake Your Claim

URANIUM prospectors can choose one of eleven instruments from a $21.95 Geiger counter to a $999.95 scintillation counter in a Pennsylvania manufacturer's 1955 line. The firm says that it has four Geiger counters priced below $100 to make it possible "for the man in the street to try his hand at prospecting." At the other end, there are three scintillation counters for the man in a car or airplane mapping uranium fields. Uranium, anyone?

Ouch!!!

A RECENT survey shows that the do-it-yourself boom has been accompanied by a sharp increase in home accidents. Most accidents among do-it-yourselfers—about 180,000 out of an annual total of 638,000—result from furniture-making. Some 252,000 injuries come from careless use of saws, knives and power machinery.

Average Family Revisited

IF YOUR family has 3½ people, if you have $350 tucked away, if you drink 1¾ cups of coffee a day, eat one egg and consume less than ¾ of a pound of meat and potatoes daily, if you drive an automobile that's at least three years old, if your take-home pay comes to about $3,500 a year, and if you spend $175 of it for life insurance premiums—then, according to Institute of Life Insurance statistics, yours may be the average American family, if there really is such a thing as an average American family.

Standard Female Forms

THE Commerce Department has come up with a set of "standard" sizes for women's clothing. If the manufacturers approve, a woman who wears a size-12 dress will be able to order the same size in all her clothing items—instead of the size-34 blouse, 26-inch waist skirt, size-36 sweater and size-5 panties she now buys. And she will know that all the manufacturers are working from the same size-12 measurements. This marks the first time the U. S. Government has attempted to standardize the female form—and nobody seems to mind. ■

One Union–Many Goals

by Charles A. Madison

Merger of the AFL and CIO into a single federation will neither change labor's aims nor bolster its ability to attain them

NOW THAT the merger of the CIO and AFL has virtually become a reality, a fitting end is being written to a chapter of American labor history which began less than two decades ago. For it was in 1938 that the Committee for Industrial Organization split off from the AFL and became the Congress of Industrial Organizations. The chief issue which led to the break was craft versus industrial organization of workers. The subsequent hectic drive to build up membership, in part inspired by the rift but mostly encouraged by the New Deal's friendly attitude toward organized labor, carried these two unions to their huge membership figures. In the process, many of the precise lines of demarcation which characterized the split have been crossed over by both sides many times. Today, the tangible issues on which these two federations can agree and on which unification can help their efforts apparently have tipped the scales in favor of a return to one, big labor union.

To some industrialists and businessmen who find it difficult to think of organized labor as anything else but an obstruction, the imminent merger looms as an additional threat to free enterprise. To some politicians who are largely dependent on the labor vote to carry them into office, this development seems to present an opportunity to press for even more favorable policies toward labor unions. To the white-collar force of the nation, as well as to the professional and small business groups, the prospect of being caught between a huge labor organization of fifteen million members and big business is not a comforting one.

How realistic are these fears? Will employers be able to deal with labor as successfully as they have in the past? What influence will united labor try to exert on business and government? Are

we on the road to a labor state?

Organized labor in America, with insignificant exceptions, has never been motivated by economic dogma. The so-called working man does not consider himself to be a member of a "working class." Wage earners do not consider themselves as an exploited or oppressed group. Unlike Marxian-inspired workers in some countries, the American work force realizes that the welfare of labor and the well-being of the nation as a whole depend on a higher rate of production, a production which labor can help to make and surely will share in. The founding of the major labor unions in the country reflected these practical attitudes.

Samuel Gompers, the man who was to become the AFL's first president and guiding spirit, joined the Cigar Makers' Union, thinking of himself as a socialist. Yet, once Gompers and his associates took a good look at the American scene and realized the social and economic opportunities the common man had, they dropped their radical programs.

Gompers spurred the organization of craft unions simultaneously with the development of his idea of "voluntarism." He claimed that this principle made unions a "voluntary association united by common needs and held together by mutual self-interest." To him, labor was a special-interest group —very much like farmers and employers.

Gompers was instrumental in making the AFL nonpolitical from the very start. The AFL never identified itself with any radical or ideological dogma, and it never formed a political party of its own. Gompers knew well enough, however, that there were some goals of labor that could not be gained through collective bargaining. Under the slogan "Help your friends—punish your enemies," the AFL used the ballot box to support candidates of both political parties through most of its early history. The labor vote became the chief political weapon of the unions, although it was never a decisive one.

THE emergence of the CIO in the 1930s brought the American labor movement further into the political ring. The CIO unions became Franklin D. Roosevelt's most ardent adherents. Almost in self-defense, but also out of gratitude for the new, easier atmosphere labor was living in, a number of AFL unions decided to give up their neutrality and work for the continued success of the Demo-

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Charles A. Madison is author of *American Labor Leaders* and other books on the origins and development of labor unions in the U. S.

cratic party. But in entering the political arena, organized labor made no move to initiate the formation of a "labor party."

The outbreak of the cold war after 1945 forced union leaders to take careful stock of labor's position in politics. With very few exceptions, union leaders and rank and file shared the common dread of communism. The heads of the AFL, having already rid their organization of insurgent leftist unions, simply smothered the isolated Marxist voices among their members. Philip Murray and his lieutenants maneuvered for two years before they succeeded in ousting the Marxist-tinged unions from the CIO.

Today, nearly all union officials share devotion to the free-enterprise system. Their big complaint is that they feel they do not have a friendly political administration in Washington. They feel they have lost political prestige since 1945, and they are naturally desirous of recouping this prestige. The proponents of merger hope that one big union can help to bring to power men who are "friendly" to labor.

There are some other advantages, of course. A merger should stimulate a rise in union membership, for example. With factional rivalry gone, each union theoretically could concentrate on the organization of nonunion workers within its industry or trade. The merger should also lessen jurisdictional disputes and eliminate union raiding. Finally, the merger should strengthen the bargaining position of unions, since both labor officials and employers would know that workers in one way or another are backed by a federation, fifteen million strong.

YET, the merger will hardly put organized labor in a position of overwhelming mastery among other social, political and economic interest groups in the nation. The prospect is that a reshuffled leadership will find itself so involved with the conflicting responsibilities and ambitions that it will not be able to capitalize on all of its potential power.

It has been said that organized labor in the United States has come of age. This is true, if maturity is considered synonymous with stability and conservatism. Politically and economically, union leaders like Meany, Beck and McDonald are more stand-pat than many industrialists. Even liberals like Reuther, Potofsky and Dubinsky limit their objectives to the benefits possible under a progressive capitalism. All of them vigorously defend the economic *status quo* which has already yielded so many benefits to labor.

Almost all top labor leaders have come to depend greatly on

the power of political pressure. Although a few of them are active members of the Republican party, most union officials are Democrats, partly because of that party's friendlier attitude toward the demands of labor in the past. The stalwart AFL unions have abandoned Gompers' policy of political neutrality and have allied themselves openly with the Democrats. Of late, the Federation has strengthened its Labor League for Political Education and intends to take a more active part in future political campaigns. The CIO has become an avid supporter of the Democratic party. The likelihood, therefore, is that the merger will aid the Democrats. More and more, unions are moving their national headquarters to Washington to take their place among the other pressure groups which hover around Congress.

This political activity, however, exerts relatively little influence on the unions' rank-and-file members. Workers continue to vote as most Americans do: more as individuals than as rabid partisans. Since most workers live in cities, they, like many of their nonunion members, tend to favor the Democratic ticket. Yet, a popular Republican like President Eisenhower can cause them to split their vote, in spite of strong protests from their union officials.

THE conditions that might stimulate labor to adopt a dogmatic ideology do not exist in this country. No federation, no matter how large, could generate such a movement within our present political and industrial framework. The labor movement in this country can become politically dangerous only when and if the mass of the workers feel oppressed, and if and when their leaders become dogmatic or reckless. This is not at all likely. Most workers head middle-class families, and while they constantly seek to better themselves, they are, in the main, satisfied that they are getting their just rewards and are no better and no worse off than anyone else in the country, union or nonunion member. Union leaders for the most part act pragmatically, for they rely completely upon the continuance of the prevailing economic system. Thus, the emergence of a "united" labor federation is not likely to upset or unbalance the social, economic and political structure of the country any more than organized labor has sought to do in the past. ■

ESTABLISHMENT of labor unions on a permanent basis was apparent for the first time during the depression of 1893-96, the first major economic setback weathered without loss of membership.

CHALLENGE INTERVIEWS

Clarence B. Randall

Chairman of the Board, Inland Steel Co.

What Else, Besides Business, Does a Big Business Man Think About?

This is the first *in a series of exclusive interviews with prominent businessmen, government officials, educators, economists, etc.—people whose work and ideas influence our lives and our well-being in a hundred different ways.*

Clarence B. Randall *is one of industry's most articulate spokesmen. Most recently, his work as head of the President's Commission on Foreign Economic Policy (Randall Commission) has attracted much public attention.*

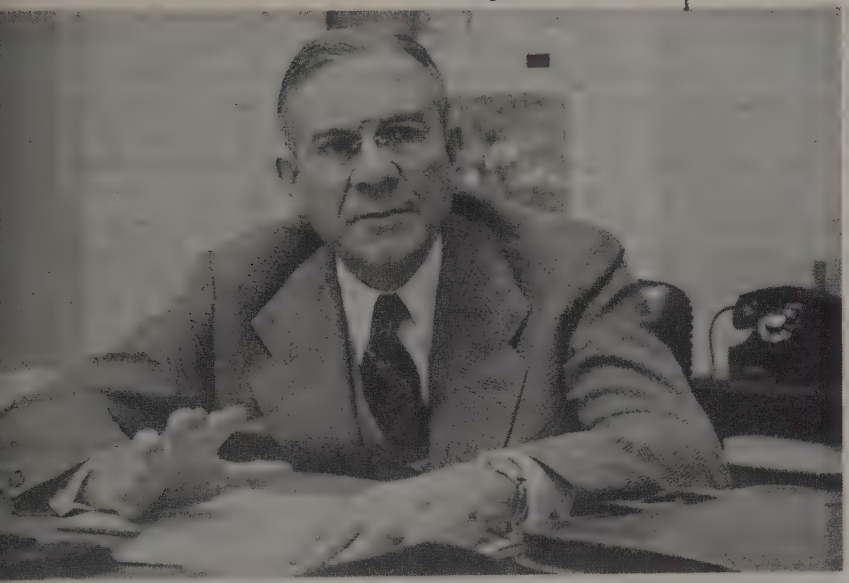
Q A GREAT MANY of our readers will probably want to know why a man like yourself who is quite busy with the everyday details of business and other related problems would take the time for such an interview. Would you care to tell us why, Mr. Randall?

A It seems to me that it is part of the responsibility of one who is in business, and certainly of one who is in both business and government, to have opinions on questions of public interest and to express them on suitable occasions.

Q Then you do not think it is bad policy or bad public relations to let people know what you are really thinking?

A I do not express myself because of any sense of wanting to promote public relations. I am not too happy about letting considerations of public relations guide one's conduct either in business or in private life. But I do think it is the obligation of each citizen to have opinions about the questions of the day and to try to contribute his bit to the formulation of sound public opinion.

Photo by Edward Burks



ple want to hear from the man who is charged with the responsibility."

Q Mr. Randall, people often refer to you as an "enlightened" businessman. What, in your opinion, makes one an enlightened or unenlightened businessman?

A I suppose we ought to define what we mean by an "enlightened" person. In business, a man merits that designation if he senses that at all times his interest must parallel the general interest and that there never can be a situation in which the individual pursues his own interest in a way that is contrary to the national interest. I do not believe that enlightenment in that sense is any function of vocation. I know unenlightened businessmen, but I would have to say that I know unenlightened professors and union leaders as well.

Q Do you think that the general conception of the businessman tends to stereotype him as unenlightened?

A I think that we tend altogether too much in our country to establish categories and attach labels to people and to ideas. We speak of the "liberal" or of the "conservative," and these words have come

to have almost no meaning. I am afraid, though, that there are certain elements of the American public who do not always think of the business community as putting the general interest above self-interest. This is an unfortunate generalization because I find in business some men with wonderful ideals and a sense of responsibility and dedication to their country. I wish that this fact could be more appreciated by the American people. The free-enterprise system, as practiced in our country, is almost unique in the world save perhaps for our neighbor to the north. That is the most precious thing we in business can perpetuate, and we cannot use it to our own advantage without ploughing back into the welfare of our country a high sense of social responsibility.

Q How do we get this story across to the people?

A That question interests me tremendously. The responsibility of telling the good story of business to the public cannot be delegated to a public relations expert. The people want to hear from the man who is charged with the responsibility. The reason they too often do not is twofold: first, there is the terrible preoccupation with the complexity of life that comes to a busy individual in any walk of life; second, and more particularly, the businessman has not developed the ability of being articulate. He's afraid of speaking and writing the English language. There come to places of responsibility in business, quite necessarily and understandably, men whose contribution to business is their scientific turn of mind—their understanding of the physical processes upon which industry rests. But these men quite often have spent so much time in the laboratory and so little in the cultivation of the humanities that they just haven't developed the capacity to stand up and tell the American people what they believe. I know their ideas are sound, and I wish that more of them would tell the people what they think.

Q Would you say this is a problem that our technical schools and universities must face?

A I am quite sure that they know it is a problem. A man really needs two educations, but that, of course, is impossible. As a consequence, each man must do his best. I happen to be a product of the liberal arts, but I have tried to acquire the other kind of knowledge and information. I do understand the physical processes of the steel industry. Men with technical educations must cultivate the opposite.

Q This brings to mind the opposition many businessmen have expressed to your ideas on the necessity of lowering trade barriers.

Do you believe that this is due, in part, to the failure of the technical mind to grasp the larger implications of foreign economic policy?
A To understand all the nuances of foreign economic policy and the necessity, for example, of two-way trade, a man must be able to deal with abstract ideas. You cannot do it from a blueprint. You cannot do it with a test tube. You must be able to think in the abstract. This is developed through a study of the humanities.

Q How do businessmen who think of themselves and express themselves as wholeheartedly for competition justify their stand against competition when foreign industries compete with their own?
A I do not think that businessmen oppose the foreign trade program altogether because they fear competition. That enters into it. But again it is the inability to think through a complex subject. It seems clear to me that a move to restrict imports *into* our country is a move to restrict exports *from* our country, and that the part of our economy which has a stake in the export trade will die unless corresponding values come into our economy on the import side.
Q Could you give us an example of this?
A Let us assume that a fine set of dishes made in this country costs $100 more than the same set of dishes imported from Germany. I can well understand that the men who are employed in the chinaware industry want their jobs protected from such competition. But there are plenty of young people who are just getting married who would want to save $100 by buying the imported dishes. I hear it said that imports are apt to reduce the standard of living of people who are employed in certain industries. I do not hear anybody say that the standard of living of those who buy those products is reduced because the prices are high.
Q Would you say, Mr. Randall, that one of the big problems here is to try to show the totality of an economic system? That is, whereas you might reduce the number of those employed in the domestic chinaware industry, the savings effected by the purchase of dishes from abroad can be spent elsewhere—creating more jobs.
A You have stated something very clearly, what I often find very difficult to get across. The economy is a whole, and whenever one section of it is artificially altered to create a seeming benefit in one area, this is invariably offset by a deficit to some other part of the economy. Take the controversial question of the Swiss watches. I do not criticize the President for what he did in increasing the

tariff on Swiss watches. It was a situation he had to face, and he faced it honestly. But I am perfectly certain that the protection accorded to our watch industry will be paid for in the tobacco-growing regions which will ship less tobacco to Switzerland, and in our dairy regions which will ship less dried milk. We barred dairy products from Holland, so Holland promptly barred flour made from American wheat. We excluded Danish blue cheese to help Wisconsin, but Denmark stopped buying West Virginia coal. All of which bears out your point. The economy is a whole, and mankind has never yet found any way to regulate the economy that is better than the workings of supply and demand.

Q Would you say that this "protection" runs contrary to basic American traditions and is more in line with the uncompetitive pattern that characterizes European industry?

A It cannot be squared with the American concept of self-reliance, vigorous competition in a free market. You cannot generalize as to all European countries, by the way. Belgium, for example, comes very close to the American ideal of free enterprise. But speaking by and large, the European businessman turns to government for protection and the American businessman usually turns to himself. European businessmen are unquestionably cartel-minded. They like all kinds of collective restraints upon vigorous competition which are contrary to our normal way of doing business.

Q Would you say that this difference in the orientation of the European businessman as compared to the American has its corollary difference in the general labor-management relationship?

A There is in the relationship between management and labor on the other side something that our heritage leaves us free of. There is class consciousness in Europe. The management class is still somewhat hereditary, or it is entered through special privilege and education. Such class distinctions in this country are social and economic anachronisms. We have in American industry everyday startling examples of men who cross from the working force into management. This is the most wholesome thing, in my mind, about our whole social organization in industry.

" " "

Q We would not be assuming too much, then, that when labor and management in this country meet on the opposite sides of the table, it is not in the sense that one side wishes to destroy free enterprise and the other to defend it?

A In the period of my experience, there has been a tremendous transformation in all these relations. Labor and management have the community interest in common without regard to which side of the table they happen to be sitting on. In some conference rooms you might go into today, you would be hard put to it to tell who is management and who is labor. Now, when they are at the table, there is present the same force of competition that is present throughout our economy. Management is trying to protect the interest of those who invest and to make it attractive for more capital to come into the enterprise, and labor is trying to get the quick advantage of a higher wage. That is perfectly normal and perfectly reasonable, because out of the play of minds and interests there always comes an answer. I think you said something very significant. I am absolutely convinced that nowhere in the realm of organized labor with which I am familiar today are there any members or labor leaders who are not just as devoted to the maintenance of the free-enterprise system as I am. And they know that their interests must be pressed within the outer perimeter of that system.

Q Mr. Randall, in this period of prolonged political and military crisis, do you think that we are doing things and falling into habits which threaten some of our traditional ways of life?

A I have thought about that a good deal. Superficially it might seem as though certain ideals were under challenge. But I have the feeling that a period of history such as the one we are in builds strong men and develops the character of the nation. I am perfectly certain, for example, that religious and spiritual values are more deeply appreciated today in our country than they were some years ago. There is a sober understanding of the great fundamental principles of life that the troubles of the world have brought. There is certainly a new understanding of freedom. In my boyhood I took the principles of the Declaration of Independence for granted; no one had ever challenged them; I didn't question them; I didn't really scrutinize them. But in my day I have seen almost every one of those basic rights challenged or destroyed somewhere in the world. I sense in the young men coming back these days from the Army a deeper understanding of the American way of life and of the importance of every individual doing his part to maintain the great heritage of ours. I believe that the eternal values and the ideals of which you speak are being strengthened, not weakened by this period. **Thank you, Mr. Randall.**

there is DESIGN *in it*

Guided by market research and the insight of creative designers, industry is mass-producing goods with style appeal

CHRISTIAN DIOR is not the only one concerned with the shape of things. Businessmen, too, recognize that a style-acceptance is an important factor in the sale of any product.

Many things influence a prospective customer to buy a product. Price, quality and brand name are certainly considerations. But manufacturers have learned that a product which appeals to the buyer's sense of beauty and style has gone a long way to make a sale.

The problem of determining what constitutes a salable design has given rise to a raging controversy between the industrial designer, who creates the style, and the market researcher, who surveys the public's tastes.

The stylist contends that the product loses its freshness if the consumer has the opportunity to preview it long before it hits the market. He also holds that if a design is good, it will grow on people. As an illustration, the designer points out that the rear fender fins of a Cadillac were laughed at the first year they appeared, but today they are on every car in one form or other. And because progress in design will be stultified by conforming

to opinion surveys, the stylist feels that the manufacturer should have the courage to contribute to the advancement of aesthetic tastes. Finally, he asserts that people interviewed say one thing about design, but they may do another when it comes to purchasing a product.

The market researcher, on the other hand, claims that by tests he can determine the style preferences of the average consumer. He maintains that while the designer must have some leeway in satisfying the consumer's flexible demands, extreme styles tend to drive away a prospective buyer. The objective of any design—the sale—would be lost. A great deal of time and money can be saved, he says, by utilizing the knowledge of what design, shape, color, texture, etc., the consumer likes—*and* will buy.

As is frequently the case, there is some truth to the arguments of both sides, for the designer's styles and the consumer's demands influence each other. While the artist is partly responsible for creating and shaping the public's opinion of what is good design, he must operate within the already existing standards of what the consumer thinks is best.

This article was prepared by a fashion-conscious staff member, who, in her capacity as homemaker, has often evaluated the style-appeal of industrially designed products.

The designer tends to work "for his art" and without regard to the utilitarian aim of his creating. The researcher is apt to read his figures too literally and reach shallow conclusions. For example, many good designs are lost because the researcher did not delve far enough to see that the design would grow on the consumer and have lasting appeal. Some experiments were recently conducted by the Ford Motor Co. in which renderings of several body styles were hung in a building on a college campus. Surveys of the same group of students were taken periodically. The most appealing design on the first survey lost place in subsequent tests, and one design gained until it finally stood out. This car would be a better seller than the one whose appeal was short-lived.

SOME time ago General Electric Co. decided to design a new percolator. A competitor had established a firm grip on the market with a tall, slender design, which had a nice balance of modern and traditional lines. All pretesting surveys carried out by market researchers showed this to be the preferred model. The stylist insisted that it was better to have a distinctive shape rather than another "me-too" copy of the popular design. A distinctive style was then selected which was low and

shaped like a brandy glass. The market results have proved that the stylist's decision was a wise one—and profitable, too.

But there are many cases where pretesting studies are an invaluable asset in learning about consumer tastes. One such survey was recently undertaken at General Electric to discover the public's preferences in home furnishings and to use the results as a guide in the design of electric clocks. The interviewee was shown a panel of color pictures illustrating a variety of home interiors ranging from traditional to ultramodern styles. She was first asked to indicate which interior best illustrated her own room. Then she was asked to select the clock she liked best; she was offered a choice of a modern, traditional and middle-of-the-road design.

By setting up the survey in this way, the market researcher learned much about consumer tastes in home furnishings. He discovered that people with traditional tastes had no experience in judging modern styles, and since they would rarely be in the market for a modern-style clock, their opinion in this particular area was of little importance. Thus, in choosing the most popular modern clock design, the analyst tabulated the votes of only those people who indicated modern tastes. Similarly, in determining which traditional-style clock is most preferred, the researcher discounted the opinions of those who prefer modern furnishings.

In this study there was a high correlation between the individual's choice of a clock design and her home interior. The traditionalists chose a traditional clock, while not one of the modernists preferred this style. The middle-of-the-road design was most popular with the semitraditionalists. The modern design was most disliked by traditionalists, and overwhelmingly favored by modernists —all of which was expected.

MANY medium-size and small manufacturers follow the design trends of the large producer who dominates the market. But the smaller firms can only be successful if they can produce the same kind of merchandise at a lower price. Because smaller manufacturers are often saddled with higher unit costs, many of them cannot compete with the large manufacturers for the same market. But smaller producers can appeal to those consumers who for one reason or another are not reached by the big mass-market producer. Statistics indicate that only 6 percent of American homes have very modern furnishings. With about fifty million homes in the country, a mere 6 percent

amounts to a potential market of three million. In these "fringe" markets, the stylist can more easily make a design contribution, for he is designing not for mass taste but for people whose more extreme preferences will tend to accept highly unique innovations.

In addition to knowing how today's homes are furnished, it is even more important to know what future trends will be. During the clock surveys, many young adults were asked to indicate the style they would choose if they were to furnish their own living rooms. The results show that young people have more modern tastes than their parents. Nineteen percent chose traditional; 14 percent, semitraditional; 37 percent, semimodern; and 30 percent, modern. But young folks are sometimes forced to temper their desires when they inherit "hand-me-downs" from parents and relatives.

THE SURGE of new products in the last few years has accelerated a public consciousness of style. Because mass production stimulates constant flow of new products, greater consumer interest in style is developed. The yearly fanfare that accompanies new automobile styles and the desire of the public to view and buy the latest car designs illustrates the growing concern with *attractive appearance.*

The trend in home furnishings is unquestionably in the direction of "modern" design. For modern technology has brought about an unusually rapid flow of new products, and therefore the growth of modern style has been markedly accelerated. This was inevitable in kitchens and kitchen equipment. There is no such thing as a traditional or colonial refrigerator. Since most up-to-date kitchen appliances are recent products, they are always modern in design. Thus, modern kitchens have brought about interest in modern design throughout the house, which in turn has developed a discrimination for modern design that only comes with experience.

The style of new home construction illustrates the general trend toward modern design. In 1941, 69 percent of the homes built were Cape Cod or Colonial style, while in 1949, only 37 percent of the homes built were in these traditional styles.

And so, the creative designer and the market researcher must both be flexible, the one in order to "inspire" a willing market, and the other in order to make allowances for a growing and constantly changing market. The result of this compromise is "style"—the kind that makes sales. ■

Can We Predict Our Economic Future?

by Arthur L. Moore

No—but by using growth models as a basis for economic decisions, we may help to make these projections come true

A SMALL BOOKLET with a big title, "Potential Economic Growth of the United States During the Next Decade," went on sale at the Government Printing Office in Washington last December. The event took place without fanfare and received only routine public notice. In one week, the booklet became one of the fastest-selling economic studies ever issued by a Federal body.

The booklet's success with businessmen, in particular, surprised its authors and the sponsoring group, the Joint Committee of Congress on the Economic Report. The Joint Committee is the top economic committee in Congress; it has often looked at the country's business future. But this was plainly a different reception from any the business world had given prior Committee studies.

The booklet projected business trends ten years ahead and described what the economy of 1965 could be like—how much we *could* (not would) be producing and how this output could be consumed. This type of projection is what economists call a "growth model."

Growth models now seem firmly established as the most broadly used tool in long-range economic forecasting. What are they and how are they used? Why do they appeal to practical business planners? What dangers are inherent in their use? How accurate are they?

A closer look at the growth model prepared for the Joint Committee will show us what its projections hold for the average American. The Committee's professional staff, under the direction

of Grover Ensley, did the economic analysis.

In the round, the study shows we could be producing $535-billion worth of goods and services annually in 1965, compared to about $356 billion-worth produced last year. Here's how such growth could affect our daily lives:

More leisure. "A three-day weekend is something to look forward to in the years ahead," Ensley says. Or the trend might be toward longer vacations—perhaps an additional twenty to twenty-five days off a year.

More income. When President Eisenhower recently mentioned a rise of nearly 30 percent in personal income in the next decade, he was talking about income after payment of taxes, with the purchasing power of the dollar comparable to what it is today. This would mean an increase in income for the average family to the extent of $1,500 per year.

More spending. A big rise in consumer spending is indicated in most models—as it was in the one prepared for the Joint Committee. The assumption is that we will maintain our demand for the output of industry. The average home now has $1,300-worth of appliances. By 1965, this will rise to $5,000-worth, according to a key executive of General Electric. Today's auto luxuries, such as air conditioning and power steering, will presumably become stock equipment. Homes will be larger, air-conditioned and modernized in scores of ways.

More saving. Many models assume the present rate of savings by consumers will dip a little. But because incomes will be larger, actual dollars saved may grow.

THIS ADDS up to a dazzling vision of the future. Will it come true? No one can be sure—not even the experts who make the models.

As a matter of fact, the first economic models to cause widespread public discussion proved to be resounding failures. They were drawn by Government analysts in the closing months of World War II and painted a postwar picture of mass unemployment and severe depression—unless the Government acted swiftly to create jobs. Their basic assumptions were wrong on two counts. First, they overestimated the number of people who would be *wanting* jobs when the rush of war work was over. Second, they underestimated the pent-up demand of consumers for goods that had been unavailable during the war years. These projections were so dramatically wrong that forecasting was dealt a severe blow.

Arthur L. Moore reports on the American economic scene as viewed in Washington for the McGraw-Hill Publishing Company.

Yet now, ten years later, we find a Republican President making use of, and businessmen everywhere enthusiastically accepting a growth model as a valuable guide to the future. Why?

The return to favor of growth models can be ascribed, mostly, to a broader understanding of a fact that eluded all but the most sophisticated economists ten years ago: economic models are important tools for forecasting, but they are *not* forecasts. Analysts wage an unending campaign to make this distinction clear. You can best understand what they have in mind by looking at the way a model is put together.

The first step is to recognize that there are two sides to expansion. First, additional goods must be produced. Second, they must be consumed. That gives a supply side and a demand side to every model.

The supply side is the simpler to project. It boils down to an equation made up of three factors: the number of workers, times the hours they work, times the value of their output per hour, equals the value of goods and services produced.

This equation has validity for any time—past, present or future. Its usefulness in looking ahead, however, depends on how accurately the unknown factors can be filled in:

Number of workers. We have already seen how the first growth models failed, partly because they were mistaken about the size of the future work force. This was an error of judgment. The model-makers thought almost all the women and the elderly men who had worked hard during the war crisis would want to stay in the work force. But many wanted to quit, and did. So the work force was markedly smaller than projected. The size of a normal peacetime work force can be more accurately projected because all of the people who will be of working age up to 1970, for example, have already been born and counted in the census.

Hours worked. Most model-makers assume the work week will go on declining at a rate somewhat as in the past. That is how Ensley gets his estimate of a 36-hour work week by 1965.

Value of output per hour. This is by far the most important part of the supply equation, and the most troublesome. It is a dollar measurement of what economists call productivity—the amount a worker can produce per hour. Analysis indicates productivity has increased an average of a little more than two percent per year since 1910. This figure is accepted by most economists as the best measurement available. But its future involves a strong

dash of the unknown. Ensley's model accepts 2.5 percent a year as a projection into the future, on the grounds that new inventions and currently high rates of investment for expansion and modernization make a rise in productivity seem reasonable.

WITH THE three factors filled in by this method, the multiplication is easy. It results in Ensley's over-all projection of supply: the economy, by 1965, based on growth rates of the past, could be producing $535 billion-worth of goods and services. President Eisenhower has not been so specific. He has talked about $500 billion-worth "within a decade."

Few businessman argue with the supply side of economic models. They are familiar with the concept of growth because they participate in it. But many worry about the demand side. Even if we can produce 50 percent more, they ask, who is going to consume it?

Growth models try to answer this by organizing potential demand under three main headings: Government needs for such things as weapons, roads and schools; private investment for new plant and equipment; and the wants of consumers. A fourth, and minor, element is net transactions with foreign countries. Projections are much more difficult on this side of the model. Estimates are more hazardous and may vary greatly from one model to another. Some growth models lean to a bigger relative consumption by Government. Others—Ensley's is one of these—put by far the biggest expansion in the consumer section. His conclusion is that consumer demand, paced by population growth and a rise in incomes, may reasonably be expected to rise from $230 billion in 1953 to $360 billion in 1965. That would be sufficient to clear the market of the $535 billion-worth of goods and services indicated by the supply equation.

Now we see why models are not prophecies. They contain too many variables and broad assumptions.

THERE are other good reasons for caution in using models as a guide to either private business planning or public policy.

For one thing, growth has not been steady from year to year, as the projections suggest. In the past, growth has averaged three percent a year, but that covers wide swings—from boom in 1929 to depression in 1932, and then to boom again. In the future, there will be ups and downs too. Therefore, a projection based on average growth rates is likely to be incorrect for any given year.

Furthermore, models themselves may influence the future. The

post-World War II models are a case in point. Neither the Administration, Congress nor private business accepted them as gospel, but they influenced thinking just the same. Taxes were cut swiftly. The Employment Act of 1946 was adopted, with its promise of Government intervention, if necessary, to halt a depression. President Truman asked Congress for an emergency unemployment fund. He didn't get it—but only because it wasn't needed. The models turned out to be "wrong," but they undoubtedly contributed to their own downfall. By raising a warning, they set in motion forces which helped change the very future they were trying to assess.

Perhaps the greatest trap models hold for the unwary is an impression that growth is mechanical and automatic. The long curves into the future, with their reassuring swing upward, may give a dangerous sense of security. The threat of stagnation, or of prolonged depression, has not been removed simply because men have learned to gather statistics and to project them into the future. Models do not constitute a promise, any more than they constitute a prophecy. The amount of investment by business, the role of Government, the consumers' desires, or lack of them, for new products—all these fluid elements are constantly being affected for better and for worse by businessmen, Government officials and by people like you and me.

In our free society, models highlight the importance of decision-making; they do not serve as a substitute for decisions. This is where models as constructed in this country differ from the Communist "five year plans."

If models fall short of accuracy on the one hand, and if their use involves certain risks on the other hand, why construct them at all? They are constructed because they serve a necessary function. Short-run predictions, from six to eighteen months, are best made by other means. But in planning for investment, businessmen must look further ahead—into the five-, ten- and 25-year future. And for this, economic models are the best tool.

Despite their shaky start a decade ago, they are now making important contributions to the kind of decisions which are an inescapable part of a free economy. As the report of the Joint Committee pointed out, projecting into the future "is here to stay as long as individuals, private business and democratic governments are free to make their own decisions. Only in an authoritarian state can we be relieved of this necessity; there, projections become commands." ■

The Outlook for Dividends

by Alfred Russell and Joseph D'Aleo

Stockholders have made it clear that they want bigger dividends —and they, after all, are the owners of American industry

THE INVESTOR in American industry can expect a bit more attention from management in the days ahead. This may not come overnight, but with each passing day it becomes more evident that the shareholder's lot is changing; that soon he will be getting a larger share of profits in dividends than he has in the eight postwar years. The generous dividends authorized in the last quarter of 1954 undoubtedly signaled this new trend.

It all stems from the growing awareness by management that throughout the postwar improvement in industrial America the shareholder has been forgotten.

For some years most of our corporations have been using an unusually large part of profits to rebuild their financial health, shattered by the depression, and to expand and modernize. Meantime, stockholders had to forego dividends they rightfully expected.

It may be that a mounting stockholder revolt, reflected in proxy battles which find managements toppling in two out of three cases, has shocked executives into taking another look at dividend policies. (The hitherto unmovable head of a major mail order house actually bowed to such pressure recently as a proxy fight threatened his tenure.)

Whatever the reason, a change has been developing in management's ideas on what constitutes a fair dividend. Ernest T. Weir, chairman of National Steel Corp., is one industry leader who acknowledges this fact. He says the shareholder has not fared too well in the steel industry in recent years and holds that "he must not be forgotten any longer." Weir urges the industry to strive for "a clear record of fair earnings and fair dividends on a dependable basis."

Just what is a fair ratio of dividends to earnings? Before the

Alfred Russell and Joseph D'Aleo are financial writers with the New York World-Telegram and the Sun.

war the average of cash dividend payments out of net profits was 75 percent; for some years now it has been around 50 percent. It is true that in the aggregate corporate dividends have reached new records in the past few years, but the total payouts represented a lower-than-prewar percentage of total earnings, which meanwhile have established new highs or clung close to records set in 1950.

The writers have just concluded a comprehensive study of the postwar profits of the top twenty-five money-making corporations in this country and how they were distributed; it suggests there is room for betterment in payouts by many corporations.

HERE, succinctly, is what our study shows:

1. The twenty-five corporations analyzed had 26.4 billion dollars of net profit in the eight years 1946 through 1953; they paid out in cash common dividends 13.4 billions (just a shade above 50 percent), and retained for corporate purposes 12.2 billions (after deducting some 700 millions of preferred dividends).

2. The cash dividends ran as low as 28 percent for some companies, with seventeen out of the twenty-five corporations distributing less than 50 percent.

Standard Oil Co. (Indiana) was at the bottom of the list, its cash payment amounting to only 28 percent of postwar profits. This, however, did not include the $43,465,495 of dividends paid out to its shareholders in the period in stock of Standard Oil Co. (N. J.). Gulf Oil Co. was second lowest with a payout of 31 percent.

The average was raised to the 50 percent mark by the 82 percent and 80 percent payouts, respectively, of American Telephone & Telegraph Co. and its Bell System subsidiaries, and Pacific Gas & Electric Co. Excluding these two utilities, the remaining twenty-three companies in the group studied had an average payout of 45 percent. The group included nine oil companies, three railroads, two auto firms, two chemicals, two steels, two electrical equipments, one non-ferrous metal producer, a mail-order house and a paper manufacturer.

The two top steel producers authorized cash dividends of less than half their postwar profits. U. S. Steel Corp.'s total came to 48 percent, while Bethlehem Steel Corp.'s was 32 percent.

The seventeen which did not distribute up to 50 percent included the Texas Co., 46 percent; Standard Oil Co. of California, 43 percent (plus 5 percent in stock in 1949 and in 1950); Socony-Vacuum Oil Co., 35 percent (plus $11,847,697 in stock dividends in 1948); Sears, Roebuck & Co., 48

percent; Shell Oil Co., 43 percent (plus 2 percent in stock in 1953).

THOSE that paid out more than half of their profits were General Motors—the top money-maker—61 percent; Du Pont, 73 percent; General Electric, 59 percent; Kennecott Copper, 68 percent; Union Carbide, 56 percent; and Chrysler, 56 percent.

3. It should be noted that in the period when the twenty-five corporations earned 26.4 billions, they spent 34.1 billions for expansion, modernization and diversification. This sum was financed 30 percent from external capital financing, with the Bell System alone accounting for 6.6 billions; 36 percent from 12.2 billions of reinvested earnings, and the remaining 11.5 billions, or 34 percent, from depreciation, depletion and plant amortization reserves. In other words, undistributed profits accounted for the largest part of the expenditure for expansion.

4. It should be stressed that by expanding and diversifying, the twenty-five top corporations created many jobs. For example, these companies had almost 800,000 more workers on their rolls at the end of 1953 than when World War II ended, though payrolls were pared by four top corporations—Bethlehem Steel, Santa Fe, Southern Pacific and Union Pacific railroads.

Bethlehem Steel's total was down due to the sharp postwar drop in shipbuilding activity.

But whether payrolls are up—as they are still in most industries, or down—as they are in shipbuilding and railroads, this much now is becoming obvious: stockholders for years have been getting only a tiny dividend "break" from corporations. Now they are becoming restive, and management is getting amenable.

STOCKHOLDER COMPLAINTS take various forms, as observers at annual meetings can testify. Executive salaries deemed "out of line" with a company's earnings draw considerable fire. Options to buy the company's stock "under the market" also are frequently denounced, partly because such purchases can depress a stock's price, under certain conditions also because shareholders resent "giving a break" to a management slow to boost dividends.

Many shareholders also complain that labor often reaps a bigger reward from reinvested earnings than stockholders do.

Their argument is that when profits are plowed back into the business in big enough volume to finance expansion the first recipient of the benefits is labor through jobs created. The holders are not much opposed to this as such; they recognize the relationship

between the labor force—linked to effective management—and production, sales and profits.

But their resentment bubbles over when expanded profits do not lead to stepped-up dividends.

They feel that they have been providing vast sums of capital (through undistributed profits) without proper compensation. They refute the argument that growth through internal financing adds to the value of their holdings. They point out that in any sudden market tumble the benefit of stock value appreciation can be easily eliminated.

Some managements have sought an answer to these complaints by declaring stock dividends to capitalize earnings reinvested in the business. This method of "rewarding" the shareholders may gain favor now that Congress has included in the tax structure a measure allowing corporations to declare stock dividends on a tax-free basis.

Meantime, the first signs of a brighter dividend picture are discernible in the oil industry, which has a low group payout record.

There is talk currently that major oil companies are thinking of curtailing exploration work, at least temporarily, as they seek to remedy an oversupply situation. If this is true, the corporations could reduce the level of earnings retained to augment depletion reserves.

It is quite possible, in any case, that the promise of more dividends is one of the reasons why the stock market forged ahead to the best levels in more than twenty years, despite the "readjustment" which some industries went through during 1954.

For it is dividends—not earnings—that stir the market.

Our belief is that investors will not be disappointed. ■

Tips for Movers

In the spring a young family's thoughts may turn to, among other things, the urge to move. Here's a check-list designed to cut down moving-day confusion. Have the bank forward, by registered mail, valuables stored in your safe-deposit box. Your bank account can easily be transferred by taking along a cashier's check to deposit in the new bank. Notify insurance agents of your new address. Take along prescriptions for eyeglasses or any medicines used regularly. Perhaps your doctor and dentist can recommend reliable practitioners in your new location. If you move across state lines, take along enough cash to pay the trucker. Unless you have established credit, household goods must be paid for on arrival. Penalty: you pay rent on the truck until you get up the cash.

Social and Political Patterns

"Privileged" classes become custodians of concentrated wealth

IT WAS IN the more prosperous agricultural communities that cities first arose to house the specialists and to make provision for the distribution of surplus products. Constantly improving methods resulted in expansion of an economy based on specialized production and external trade.

A corollary to these developments was the stratification of society. In order to understand the economic function of social and political "classes," it is necessary to understand exactly what we mean when we speak of "surplus products." The so-called surplus was not made up of *unwanted or unneeded* commodities and products. Rather, it was represented by that which the ruling and leading elements of society could exact from the countryside —on the basis of political, military or social power. Because not enough of a surplus could be produced to satisfy the wants, needs and desires of the whole of society, economic and material progress depended on the abilities of a few to accumulate and direct what little surplus there was.

The economy of the ancient world became an instrument for the concentration of limited economic resources in the hands of warriors, priests and landed aristocracy. At first, these "privileged" classes consisted almost exclusively of those who governed and those who fought to hold their superior positions. The source of their wealth was usually derived from land and not from money capital or wages. In ancient Egypt, the bulk of the

people tilled the soil as bondsmen to the aristocracy. But the members of the aristocracy were themselves in enslavement to the Pharoah. A prize in the form of land was the most desired kind of reward.

ANCIENT Greek writers mention wages and public finance, although such discussions are unsystematic and for the most part within an ethical and political frame of reference. In the works of Plato and Aristotle, we find that the concept of production for gain is considered to be immoral. In Plato's ideal *Republic*, for example, only foreigners are allowed to engage in production and trade, while the citizenry of the Republic concentrate on the "serious business" of fighting, statecraft and philosophy. As long as political power was lodged in the hands of a nonproducer class, a system of economic doctrines could not come into being. Aristotle's belief that a man should produce enough only to maintain himself and his household made it difficult for him to form a clear idea on the nature of exchange. And when he attempts to determine the criteria of a just distribution of wealth, his emphasis upon freedom, noble birth and general excellence betray a greater concern with political status than with economic contributions.

But every civilization, once it had embarked on the grand adventure of economic activity, became involved in more complex economic patterns. To meet the needs of a growing and increasingly specialized system, a new class of merchants and money-lenders emerged. Although land ownership remained the main form of wealth, the tools of trade—money and credit—assumed increasing importance. Political unification of vast territories made possible the production for market on a hitherto unprecedented scale. Cities flourished, fed and supplied by goods obtained in trade with other peoples and tributes exacted from conquered lands. Ancient Athens, for example, imported more than half of its food, but as a manufacturing and mining state she supported three or four times the population she could have fed had she devoted her land solely to agriculture.

Commerce brought a high degree of specialization not only to individuals but to entire societies. Classical Greece was so specialized that the beginning of a factory system appeared. The Phoenicians, strategically located, became the middlemen traders. Their ships touched at Egypt, Spain, Sicily, Greece and even Britain. In the days of Rome's greatest imperial glory, all trade routes converged on the Italian

peninsula. "Now Rome is golden," sang one of her poets, "since she possesses the mighty treasure of the world."

THE development of a highly specialized exchange economy continued to benefit principally the landed aristocracy. It was the members of this class who continued to absorb most of the wealth, enjoy the greatest privileges and lead the most pleasant and comfortable lives. True, some changes did take place. The aristocracy, instead of continuing in its old role of governing and fighting, now paid others to do the job. And although large land holdings continued to be the main form of wealth, the landholder lived in town and devoted his time to frivolity or political activity. His main interest was not in food production but in the return he could get from his land.

Throughout the history of these early civilizations, we find the leisure class playing a key role in the processes of growth and development. Its major contributions would not have been possible if it were not for a large servile, or at least subservient, group whose labor sustained the nonlaboring elements.

In theory, the upper class continued to be contemptuous of trade and economic activity, but in practice they could not very well ignore the new economic institutions springing up all around them. And while the Greek philosophers had looked down on trade and commerce as degrading pursuits, we find Roman writers decrying the overemphasis on the collection of tribute from conquered peoples and the decline in domestic production. Those engaged in administration and law had to make allowances for the economic institutions. In the process, they evolved "working formulas" on such questions as currency, taxation, prices, property rights, etc. While the Greek historian Xenophon in the third century B.C. could write a very practical but parochial book on *Ways and Means to Increase the Revenue of Athens*, we find that throughout the Roman Empire administrative edicts on prices, interests, etc., show a keen awareness of the workings of an intricate exchange economy.

AN INCREASE in the number of property owners as well as the growing use of credit instruments gave rise to a whole new structure of law. At first, these laws were simple and very harsh. Babylonian law, for example, forced a debtor to pledge his wife, children and himself as surety for a loan. By permitting enslavement for nonpayment of debt, the working force of captive

slaves could be augmented for the purpose of additional capital accumulation.

In succeeding centuries, lawyers found themselves adopting more and more exceptions to existing codes—until they ended up by writing an entirely new code. It is in Roman law, as codified by the Emperor Justinian in the sixth century A.D., that we get the clearest idea of what the ancient world's economic life was really like during its heyday. It is here that we find private property, which in Egypt was nonexistent (all of it being held by the Pharoahs) and in early Greece was relatively unimportant, fully established as a legal right. Roman law anticipated many of the institutions which would come into being with later capitalistic societies. The ingenuity of Roman lawyers developed the idea that a body of men might be clothed with a corporate personality and thus be subject to a limited liability—the theoretical basis for corporate enterprise.

BUT remarkable as progress in the ancient civilization was, society still had a long way to go before a system of economic theory could be developed. It has been said that there has not been any technological discovery since the invention of the wheel. Similarly, it might be said that once man had learned to produce a surplus, above and beyond his immediate wants, there has not been any original contribution to economics. But that would be an oversimplification. The wheel carried mankind toward greater technological developments, just as surplus production made possible the creation of an expanding economic system. In the exchange economy of the ancient world, we find the first serious exploration of these possibilities.

IT WAS characteristic of the civilizations of this early period that inadequate production left the bulk of the population at a bare subsistence level, while the fruits of economic progress were concentrated in the hands of a few. Material progress was financed and directed by the few—primarily for the benefit of their own class and only incidently for whatever other benefit might accrue to the bulk of the population.

Not for another thousand years would this social structure and manner of achieving material progress be seriously challenged.■

NEXT MONTH: The rise and fall of feudalism and the beginnings of secular economic thought.

Are we to have

Progress or decay?

by Robert G. Dunlop

Managerial foresight can keep our society moving ahead

SEVERAL MONTHS AGO my family and I spent our vacation in Europe. We were typical tourists, gawking at cathedrals and monuments, taking each other's pictures at scenic spots and tramping determinedly, if not tirelessly, through museums and ruins. But sometimes serious thoughts arise unbidden. I remember the words of a guide who was showing us some ruins. Pointing to a half-crumbled edifice of marble, he said to us, "This stood in the days before our country became decadent."

From that point my thoughts turned to our own country and the democratic civilization of private enterprise, based on individual freedom, that we have established. We have become the strongest, richest and most prosperous people in the world, I reflected. Have we reached our high tide? Is America capable of rising to even greater heights, or are we to follow the path of past civilization and turn downhill?

I do not pretend to be an accomplished historian or social philosopher. But I am sensitive to the fact that the answer to the question I raised depends in large part upon the quality of leadership that we in industrial management offer our country. The social, moral and even spiritual overtones of our decisions affect too many lives, both directly and indirectly for us to ignore the broad, long-run social consequences of what we do.

For this task, we need a sense of historical perspective—the ability to stand apart from ourselves, as it were, and observe the trends and changes that are occurring in our own times. Perhaps the most interesting observation to be made in Europe is that wherever one sees a noticeable lack of change, one also finds a notable lack of progress. This observation is especially significant to Americans because ours is a creative society in which we *encourage* change by striving competitively to improve our goods, services and processes. It is the peculiar genius of our people that we have been able to make progress through the en-

Adapted from a recent address by Robert G. Dunlop, president, Sun Oil Company, before the Finance and Accounting Section, American Petroleum Institute, Chicago, Ill.

couragement of change while maintaining unchanged the basic virtues of our political and economic system.

We thrive on change to such an extent that our economy has aptly been labeled "the permanent revolution." In fact, the very beginnings of our present business system may be thought of as springing from three revolutionary events that occurred almost simultaneously nearly two hundred years ago. Three men, one in Glasgow, one in Boston, and the third a Scotsman traveling in France, supplied much of the explosive thinking that helped lay the foundation for the business world we know today.

The Glasgow man was James Watt, whose reciprocating steam engine, patented in 1769, was the catalyst of the Industrial Revolution. The Bostonian was Samuel Adams, whose skillful and relentless propaganda campaign culminated in the American Revolution, bringing economic freedom from Britain's restrictive colonial policies. And the continental traveler was Adam Smith, whose book, *The Wealth of Nations*, published in the same year as the Declaration of Independence, struck a deadly blow to mercantilism and helped make possible the rise of free markets.

In the intervening years, American business has experienced many changes. We have seen changes in our technical processes and in our products, changes in our organizational structures, our methods of financing and selling, our relations with labor and government, our concepts of business ethics, and changes in the laws under which we operate.

THE PROCESS of adaptation and adjustment that business must continually undergo is deliberative. Our free decisions, for the most part, determine what changes will be made and, hence, what our destiny shall be.

All of these thoughts naturally led me to the question: What are the current trends that may hold particular significance to business in the foreseeable future?

One significant development, it seems to me, is the growing complexity of industrial corporations. As our population has grown and our standard of living increased, businesses have grown in proportion to the larger job they are called upon to do. Growth in size means the introduction of additional levels of supervision and the subdivision of authority. Specialization is another contributing factor. As our organizations grow and responsibilities are increasingly segmented, we hire more staff personnel to handle particular matters with an expertness we could not expect from others. Our

growing reliance on science for improvements in products and processes results in the employment of ever greater numbers and varieties of technical specialists. The trend toward product diversification also tends to increase the complexity of an organization. New techniques must be mastered, new markets studied and, often, additional specialized personnel hired.

The fact that we, as industrial managers, hold ourselves responsible not merely to stockholders, but to employees, customers and the general public adds further complication. We become involved in the difficult task of weighing the merits of each group's special interests in the problem at hand. Sound management at the policy level grows ever more difficult.

THE TREND toward increased complexity has given rise to a second trend of great significance. I refer to the tendency to decentralize our organizations, both in terms of physical operations and of managerial authority. I am not referring here to the dispersal of industry for reasons of national defense. I am thinking, rather, of physical decentralization undertaken for economic reasons such as the lowering of distribution costs. And I am thinking also of organizational decentralization through the granting of a higher degree of autonomy to local managers of plants and offices.

Generally speaking, I think physical decentralization has a sound economic basis stemming from such things as improvements in communication technology, population changes, and the broad geographic availability of power resources. Managerial decentralization is sound, also, from a sociological point of view. Greater community acceptance and a consequent decrease in the common fear of "big business" is one important consideration. The greater ease with which employees can identify themselves with and develop loyalty to small, more-or-less autonomous units is another. And the fact that a decentralized company is likely to be less authoritarian and arbitrary in its management practices means that it harmonizes better with this country's democratic tradition, an important long-run consideration.

A THIRD important trend is automation. Enthusiasts are calling this development the vehicle of the second industrial revolution. That may be too strong. There is nothing revolutionary about the improvement of capital equipment. Automation might more properly be regarded as an evolutionary development along the paths that extend logically from past experience. The word "automation" it-

self is a misnomer, since plants to which it is applied are in fact semi-automatic. But, nevertheless, great improvements in machinery and manufacturing processes are clearly in the offing. We know from experience that the net result of technological progress is the creation of greater employment opportunities for labor.

The final major trend I wish to call to your attention is the increasing concern of industrial management with human relations problems. We operate in a different social milieu from that of previous generations. America is being transformed into what Sumner Slichter has characterized as a "laboristic society," meaning that political power is held in increasing degree by people who see their primary roles as that of employees. To these people considerations of such things as "security," "human dignity" and "social justice" are particularly important.

Business can no longer justify itself solely in terms of the great material benefits it offers the American people. It must also identify itself with the newer goals in the field of human relations that they have clearly adopted. The law of life for institutions, as for living species is *"adapt or perish!"*

I DO NOT mean to suggest that any sweeping alteration in business practices is required. By and large, the American people favor free enterprise; they do not demand any major reforms. What is required of us, however, is that we give increased attention and emphasis to human relations matters. We must take greater pains to be fair and open in all our dealings with employees and other groups. In modern society, particularly with the excellent communication media in use, it is essential that businesses enjoy good reputations, and good reputations must be honestly earned.

Assuming that there is no atomic war, we are entering what I believe will prove to be America's golden age of opportunity. Never before in all our history have we had better reason to be hopeful about the future. Let us commit ourselves to act wisely and diligently, so that our good fortune will not reverse itself upon us and so that no American will ever have cause to say to a stranger from abroad, "This stood in the days before our country became decadent." ■

THE FASTEST TRAIN RUN in the United States was recorded in 1905, when the train now known as the Broadway Limited covered three miles in eighty-five seconds, traveling at a rate of 127 miles per hour.

BOOKS IN REVIEW

The U.S. can best help the underdeveloped nations of the world to help themselves by liberalizing its trade policies

Reviewed by Elliott Haynes

APPROACHES TO ECONOMIC DEVELOPMENT. By Norman S. Buchanan and Howard S. Ellis. 494 pp. New York: Twentieth Century Fund. $5.00.

DURING the last ten years Americans have learned a good deal about the tremendously complex task of helping the less privileged people of Asia, Africa and Latin America to help themselves. Although the subject by its very scope and nature still defies conclusive analysis—and perhaps always will—we can at least profit from past mistakes.

This is the purpose of a recent Twentieth Century Fund study by Drs. Norman S. Buchanan and Howard S. Ellis, entitled *Approaches to Economic Development.* By drawing on the experience of the last decade, this informative study seeks to reveal some of the mistakes we have made in our foreign aid programs and to outline a more productive approach for the future.

Elliott Haynes, an expert on world economic affairs, is managing editor of Business International.

The authors feel that excessive emphasis has been placed on capital formation, often at the expense of other important factors. Before capital itself can be fully and efficiently used, the various factors of production—land, labor, managerial skills—must exist in the right *proportion.* Even more important, deep-seated cultural and social barriers that stand in the way of economic growth, such as cow worship, jewelry hoarding and nepotism in government, must first be eliminated.

Actually, the authors believe that capital formation in the underdeveloped countries is a far greater possibility than has generally been realized. Disguised unemployment and heavy seasonal layoffs in agriculture can be used to produce some kinds of capital goods without reducing agricultural output. Such labor, provided with simple tools and properly managed, could build roads, irrigation ditches, schools, docks and other public buildings.

This is but one of several ways in which capital formation can be initiated. The added production this new capital makes possible, moreover, need not always be consumed. It can be used to push capital formation further. If, for example, the increase takes the form of a larger agricultural output, more people can be put to work on capital goods production since fewer people are required to produce the necessary food. The agricultural surplus (particularly if it is in the form of staple commodities such as jute, coffee, rubber, etc.) could also be exported, with the proceeds used to buy machinery and other capital equipment that cannot be produced at home.

But, as the authors admit, capital formation is a direct invitation to some inflation since production is bound to lag behind money outlays at first. Unless, therefore, expenditures on consumer goods are checked by taxation or rationing, capital development will not increase the output of consumer goods. What will increase is prices. Limiting consumer expenditures in areas where most people can barely manage to stay alive, however, is not a move calculated to keep popularly elected governments in power for long.

The solution to this key problem, the authors point out, is as much a problem in sociology and social psychology as it is in the field of economics.

IN MOST of the underdeveloped countries of the world, material success and individual betterment are frowned upon as contrary to deep-seated cultural traditions. In such societies, new capital equipment will often not be desired; or, if desired, will tend to be wasted. Individual initiative becomes submerged in a rigid social hierarchy in which group loyalties (to one's family, caste or tribe) outweigh a rational, "scientific" approach to the problems of everyday life.

Aside from their direct effect on the individual, such "closed" societies produce political and social institutions that impede economic development. The family, for example, is not integrated into society as a whole. As a result, nepotism (bestowal of patronage plums to relatives) is common and, even more surprising, is accepted as natural. Outworn semi-feudal legal systems, notably in regard to land ownership and tenancy, further impede "natural" economic growth.

Underlying and reinforcing these obstacles to economic development is a deep-seated and often irrational resistance to change of any kind. I remember the story of one technician who went to Ecuador to help rebuild, from the ground up, a village that had been

destroyed by earthquake. Here, he thought, was a golden opportunity to build a model town laid out in the best modern manner. Yet the villagers insisted on recreating the old village, including the same overhanging walls along narrow streets whose collapse during the earthquake had caused many deaths.

This study suggests several solutions. As may be imagined, none of them constitutes a quick or complete cure. What is at stake here is the reorientation of entire civilizations, and that takes time. Technical assistance, international migrations and domestic migration all subject underdeveloped economies to external influences that breed new wants and new ways of achieving them.

INDUSTRIALIZATION is, of course, an even faster method of change, one which "dynamites" people into new modes of behavior. Normally, this process is an evolutionary one, impelled and guided by the price-market system. Abnormally, it is centrally planned and revolutionary, as in Russia and China.

To reap the full benefits of a price-market system, however, the developing country must enjoy an international environment where the forces of demand and supply are allowed to operate freely. A flourishing system of international trade, the authors believe, provides developing countries with (1) commercial contacts which foster a vigorous class of entrepreneurs eager for social change, (2) the foreign exchange with which to import badly needed capital goods, and (3) a favorable environment for foreign capital investment. As the authors repeatedly point out, "Government loans, grants and technical aid . . . should be regarded as marginal contributions of a strategic character. The basic contribution of United States policy . . . lies in trying to provide an auspicious international setting in which the developing economies can make their own way."

In this connection, the authors suggest a "unilateral, incisive and unambiguous abandonment of protection in all its forms, whether explicit or concealed." If this country were sensible enough to take such "unilateral" action, they say, other countries would follow suit. Other economists, recalling the lonely position of free-trade England in the early 20th century, may feel less optimistic than Buchanan and Ellis.

FOR ALL its merits, this study is open to criticism on several counts. For one thing, the role of direct U. S. investment in underdeveloped countries does not seem to be fully understood. Looking for outside influences to break traditional

patterns, the authors turn to the foreign trader; yet it is the capitalist who settles in a country with his new products and his new techniques who is the real agent of change. Again, it is blandly suggested that there are areas of economic life that the governments of underdeveloped countries may "naturally" wish to reserve for themselves or for their citizens. Now, it so happens that these governments or their citizens are often incapable of developing the resources that "naturally" fall within this sacrosanct category without foreign capital: witness Brazil's failure to explore for oil and Egypt's recent move to attract foreign oil companies. If, as the authors maintain, raw material exports are the most natural source for badly needed foreign exchange, then surely foreign development is better than no development at all. Besides, by excluding private foreign capital in these fields, such "state monopolies" set dangerous precedents for the exclusion of private capital in other fields.

THIS casual treatment of foreign capital goes hand in hand with the study's lack of concern about central economic planning. "Nothing very useful," the authors say at one point, "can be said in general terms concerning the relative merits of the price-market system and central economic planning as means of effecting the economic changes necessary to undercut the cultural deadwood in underdeveloped areas." This reviewer, for one, cannot agree. Central economic planning merely tends to substitute one kind of "closed" society for another. And surely, one of the major goals of true economic progress—human freedom—need not be subverted in the effort to attain economic development. ■

Eureka!!!

FOR EVERY 100 "worthless" stock certificates, ninety-nine may still be truly worthless—but one may prove to be of great value. Most of the so-called "worthless" certificates in your attic or desk drawers are of stock in old mining companies. The land has probably been worked dry of gold or silver, copper or lead—but uranium may have been discovered there! As a result, the land could increase in value in one week—from $5.00 per acre to $50,000 per acre.

a personal note

from the editor

on automation—a new scapegoat for an old line

IT HAS NEVER BEEN the editorial policy of this magazine to quarrel deliberately with the content of another publication. This month, however, there has come to hand an amazing article which appears in the January 1955 issue of something called New Challenge (not to be confused with our CHALLENGE). It purportedly examines the effect of automation on employment prospects.

The article is cleverly written, for in less than one thousand words the author has managed to present arguments which can thoroughly confuse people who have not done some informed thinking on automation. I cannot refrain, therefore, from making a few comments about it in this personal note.

After giving some examples of how automatic machines are being used and how they are allegedly replacing workers and increasing unemployment, the author makes this comment: "For big businessmen automation is a dream come true. Their magazines are full of stories in which executives purr like contented kittens at the thought of eliminating workers." This is mission No. One accomplished by the article. It "shows" how businessmen do not give a hoot for workers. The implication is that businessmen do not work, of course. Besides, they are so sold on efficiency that they would just as soon move their factories and automatic machines to the moon, where they could operate in complete freedom without workers—or customers.

Then the author warms to his subject. He wants to know who is going to buy the "cars, TV and refrigerators that come faster than ever from these automated factories." He answers his own question by observing that "automation is pushing the vicious economic cycle faster and faster."

LET'S RECAPITULATE this thing. The author moves very quickly. First, he says businessmen do not care about anything but production. Then, he says unemployed people will not have the money to buy the production. Finally, he says the vicious economic cycle will become more

and more vicious as automation takes over.

But only the author has said that automation is already *displacing* people; that businessmen *want* to produce more than they can sell; and that there is, somewhere, a vicious cycle. What *vicious* economic cycle is he referring to? Was our economic system always "vicious," even before automation? Is that what he wants us to believe?

THEN THE AUTHOR "reveals" who is going to be hurt by automation. He says it will be younger workers lacking in skills and seniority, Negro and other minority groups and working women. An appeal to logic probably will be misplaced, but can the author completely neglect the job opportunities which have been opened up by machinery for the very people who, he claims, will now be most hurt? Some statistics might help. In 1920, for example, only 21 percent of all American workers were women. By 1950, 28 percent of the work force was made up of women. The Bureau of Labor Statistics estimates that by 1975, 33 percent of the work force will be made up of women. It should be remembered that the years since 1920 have been years of increasing mechanization, or automatization, if you will.

The article goes on to make the amazing admission that "it isn't the machines that hurt you." No, indeed. "It's how they're used by the bosses." In other words, machines, automatic or otherwise, are wonderful things. But those bosses—they are always trying to figure out ways to produce things they cannot sell, to make you buy, even though you haven't any money. Then he tells us: "Science is okay. Profit-hungry corporations are what foul up the works."

Now the melodrama has reached its climax. The heroes in the piece are working people in general, and younger workers, Negroes and working women in particular. The villains are the bosses. Automation and science are the misguided innocents. How will the plot be resolved? The author does it easily. "Ultimately," he says, "the only answer is to socialize industry, to let science work for all the people, not merely stockholders." (Stockholders are villains, too.) In this way, the author assures us, there will be a life of leisure devoted to creativity and relaxation—"the just dream of workingmen for centuries."

What workingmen in what century is he talking about? New Challenge is rehashing an old line. But it is a very clever line, so clever that I have had to consume two pages arguing against distortions conceived on behalf of a dubious purpose.—H.B.